SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: **18 SEPTEMBER 2015**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **CHANCELLOR'S BUDGET: UPDATE**

SUMMARY OF ISSUE:

The Chancellor of the Exchequer presented his budget to the House of Commons on 8 July 2015. This paper contains a summary of the implications for the Local Government Pension Scheme (LGPS).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee approve further investigation by officers into the options as set out in the main body of this report, with a further report brought to the Committee in early 2016.

REASON FOR RECOMMENDATIONS:

To decide on and adopt an appropriate, proactive and sufficiently ambitious approach to the current challenge set by the Chancellor of the Exchequer in his 8 July 2015 budget statement, further work is necessary to investigate the viability of the options identified. Investigative work into other potential options must now be set aside in order to focus on the most suitable ways forward and reach a final recommended approach for the Surrey Pension Fund.

DETAILS:

Introduction

1 The Chancellor delivered his Budget on 8 July 2015. Page 78, para 2.19 of the Chancellor's Budget Report (Red Book) contained a section announcing potentially far reaching changes to the degree and flexibility that will be given to Funds in the future regarding local decision making and control in the management and allocation of LGPS pension fund investment assets. The statement reads:

"Local Government Pension Scheme pooled investments: the government will work with 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."

2 With regard to this extract, there is no mention of the debate concerning active versus passive investment, a mandatory passive approach or any prescriptive legislation involving passive investment at this time. The Surrey Fund is already working individually and collaboratively on delivering savings (deep dive review on costs, negotiations on manager fees, national procurement processes and shared administration costs).

Key Questions

3 The key questions that arise from this statement are:

"Significantly reduce costs"

a) Does this apply across the LGPS, or for those Funds that are considered to be expensive or poor performing?

Will a benchmark be set by Government as to a target level total expense ratio?

"Maintaining overall investment performance"

b) Is this measured at the LGPS Fund average, or is it the aim to drive the lower performing funds to achieve above average performance?

What consideration is to be given to individual funding levels and risk profile?

Over what periods will the assessment be made?

NB. It should be remembered that, by definition, not all funds will ever achieve the average performance.

"Will invite local authorities to come forward with their own proposals to meet common criteria"

c) How long are Funds to be given to develop these proposals?

What are these common criteria and how will they be used?

Will the common criteria be subject to consultation?

How far advanced do a Fund's proposals need to be?

With regard to "common criteria", will these include total pooled fund asset values, or will there be a basket of measures such as the key performance indicators (KPIs) currently being developed by the LGPS Scheme Advisory Board (SAB)?

It should be noted that Surrey is a pilot Fund for the development of KPIs as discussed at the meeting on 23 May 2015.

"Backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments"

d) How ambitious is 'sufficiently ambitious'?

How will the ambition be measured?

What will the legislation be and what is the implementation timescale?

Will this mean that only those funds that do not meet the criteria have to pool, or will it go further to announce that, in addition to pooling all funds, funds will be required to allocate certain proportions of assets to specific investment strategies and asset classes (passive management or allocations to UK infrastructure)?

4 Given the above areas of uncertainly and likely response timescales, officers believe that undertaking some preparatory work now to understand potential options is in the best interest of the Fund and would not be premature. By doing so, officers, members and advisors will have a wider understanding of the available options. Relevant information and analysis will be vital to enable the construction of a more measured and considered response when the government consultation is finally issued.

5 Work to date includes officer attendance at events, and conference calls with the Local Government Association (LGA), Department of Communities and Local Government (DCLG), Scheme Advisory Board (SAB), various advisory firms and many other LGPS funds. The consultation paper (when it is published in early November) will provide a lot more detail and guidance than it present at the moment.

Expected Timeline

6 At the time of writing, nothing had been formally announced on timeframes. The expected timeline is set out below:

Government to commission and receive independent advice from "industry experts" to help set the "common criteria"	Aug – Oct 2015
Consultation (and the backstop enforcement regulation)	Early Nov 2015
Consultation response from all stakeholders (expectation is for 12-week response period)	Early Feb 2016
Draft Regulations published	March 2016
Effective date	April 2016
Creation of asset pools (phased in over three years)	April 2019
Transition of assets for those funds not meeting the 'common criteria'	Unknown

7 The November consultation paper will cover:

- Legislative changes circulated in draft to give the Secretary of State increased powers;
- Proposed changes in the investment regulations;
- Acceptable criteria for pooling;
- Back stop measures for recalcitrant schemes.

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8 There are no plans yet to formally consult on the criteria for pooling. It is thought that the criteria for pooling (all asset classes) are likely to be:

- Size (£30bn target);
- Cost Savings;
- Governance.

9 In addition, there is likely to be a further statement in the Chancellor's 2016 Budget. The Government acknowledges that pooling will take three years plus with some assets (Private Equity, etc) taking longer. The consultation paper will outline 'common criteria' that will be used to assess the proposals brought forward by Funds, including the optimal scale and size of pooled investments and the role of passive management in a Fund's investment strategy.

10 Government has publicly acknowledged the advance already made in this area made by some Funds, and indicated that it is its intention is to build on that progress. Following the budget statement, the Lancashire/LPFA, the London CIV and the LGPS National Frameworks have all stated that Government has individually reaffirmed to them that their initiatives are consistent with the objectives for fee savings through scale economies.

11 The focus is now described to have changed from active/passive to an issue of scale and better governance. The government is not wedded to one type of pooling or another, and are said to be encouraged with the more fiduciary style offering of Lancashire/LPFA. They will not be prescriptive, preferring to hear proposals direct from the LGPS. Overall scale has strong political appeal with the ultimate model being one in which strategic asset allocation is set locally by each Administrative Authority, with that allocation being implemented by investing in one or more asset pools. Ultimately, the objective is only half a dozen or so professional buyers of fund management services, not the current 89. Pooling proposals will be judged against the criteria published in November 2015 and the minimum size of acceptable pool will be around £25bn to £30bn.

12 The Chancellor's announcement makes clear that government is targeting investment fee savings on the current annual LGPS £660m fee base (as identified in the original Hymans Robertson report). As such, the industry assumption is that a slice away from this fee base is the minimum benchmark upon which any proposals involving asset pooling will be measured. It has been acknowledged that, as well as cost savings, the maintenance of existing overall investment performance is desired.

13 To date, it is still unclear whether this performance is to be measured at the average national level or individual fund level. The distinction is critical to a top performing Fund such as Surrey's (top quartile over the three years to 31 March 2015). It should be noted that the achievement of a 100% funding level within a specific timeframe is not amongst the Government's objectives being targeted. There will be the opportunity to put forward proposals in the consultation response later in the year. Officers are currently exploring opportunities with several other Funds, and these opportunities include the possibility of CIVs and joint vehicles.

14 The Government has also stated that it is keen to see authorities take the lead in delivering savings, suggesting that it will actively support Funds that come forward with any new initiatives of sufficient ambition and scale. Conversely, its intent to impose sanctions on those Funds who do not voluntarily undertake “sufficiently ambitious” plans for asset pooling has also been confirmed. It is understood that Government will be talking to a wide range of stakeholders over the summer period to develop the common criteria and expect to commission work from independent external experts to support this.

Surrey Pension Fund’s Progress

15 At is meeting of 23 July 2015, the Pension Fund Committee asked that officers develop proposals to meet common criteria for delivering savings for consideration at the next meeting of the Surrey Pension Fund Committee on 18 September 2015.

16 The fund already utilises collaborative arrangements extensively to ensure maintenance of the highest levels of performance whilst delivering value for money. The primary examples of this include the collaborative administration shared service (not including investment management) with East Sussex County Council and the London Boroughs of Westminster, Kensington & Chelsea and Hammersmith & Fulham. There is also the recent renewal (2013) of the actuarial contract utilising the LGPS National Frameworks. Current procurement work is ongoing, utilising the LGPS National Frameworks for the market testing of pension fund investment consultancy.

17 Officers and committee members have also conducted a deep dive review into the cost base of the pension fund over the summer, the results of which are on the agenda for the 18 September 2015 committee meeting.

Options for Change

18 Whilst the Government has not issued an answer to the responses from its paper, “*Opportunities for collaboration, cost saving and efficiencies*”, published in May 2014, given the structure of the questions contained in the initial consultation, and the Chancellor’s budget announcement, it is clear that the Government’s preference is for greater scale in investment management through pooling of assets and other efficiencies.

19 This view would appear to be driven by a belief that savings in investment management, across the LGPS as a whole, can be achieved by moving to pooled vehicles with a large proportion of the assets managed passively. As such, it seems unlikely that an individual Fund’s ability to demonstrate top quartile investment performance and/or lower than average costs (as Surrey Pension Fund achieves) will preclude it from being forced to pool some, if not all, of its investment assets at a national level if it does not have individual alternative ambitious plans for asset pooling.

20 Officers have been open to consideration of all options either currently available or requiring construction that would ensure the Fund retains strategic management of asset allocation. One of the main drivers in the consideration of new opportunities is that being that an initial mover should result in the securing of greater control than if the Fund is mandated to pool its assets nationally.

21 The key factors that officers have looked to address in any option to be considered are that:

- 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 cost 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.

Outline of the Seven Options Available

Option 1: Do Nothing

22 This option is not recommended and would push back against the Treasury's ambitions for large scale operation. In time, the pension fund would likely become the focus of compulsory legislation, enforcing an approach to wider scale asset pooling or a mandatory passive approach to investment management. The Fund would have no control over its own destiny.

Option 2: Collective Purchasing Through Framework Agreements

23 This type of procurement works well for standardised and transactional service provision where there is a unit price and/or economies of scale, e.g., actuarial or custodian contracts, either through wider frameworks or limited to a smaller number of Funds joining together to jointly procure. An example of this is the Norfolk Fund's current work in the design of national framework agreements for passive index-tracker mandates, amongst other services.

24 The Norfolk model (LGPS National Frameworks) currently delivers actuarial services, investment consultancy services, global custody services and legal services. Passive index-tracking management will be its fifth service and is aimed to be delivered soon. A fund will thus retain control over asset allocation and investment manager selection, but with potentially limited manager choice, given the restriction to index-tracker pooled funds. It is envisaged that active equity managers will follow further down the line.

25 The LGPS National Frameworks has been a resounding success in the delivery of low cost services to LGPS funds, but this option is unlikely to be considered to be ‘sufficiently ambitious’, given the Treasury’s stated objectives. However, it should be pointed out that some LGPS funds still regard this option as viable.

Option 3: Collaborative Procurement

26 This is where two or more LGPS funds make specific investments via a bespoke procurement to select a manager together, for example, if two funds decide at the same time to implement a multi asset credit or a global equities mandate.

27 Arrangements for collaborative procurement are often ad hoc and need to be matched to strictly run parallel procurement processes within the two (or more) funds. This can be challenging and leads to increased execution risk and appropriate opportunities not being presented to individual LGPS committees because of time delays, and the difficulties of achieving parallel implementation agreements. It is possible that two LGPS committees could choose different investment managers in a final selection process.

28 When considering its use for investment manager selection, it has been found to be testing, mainly due to the lack of standardisation in the individual fund requirements, committee approval procedures and implementation timetables. Such co-investment opportunities are rarely timed to run exactly concurrently, and will require a commitment by both funds to a specific implementation timetable, which is unlikely to be most favourable for both Funds.

29 For a fund of Surrey’s size, the savings can be marginal, applicable only to specific mandates and therefore large scale, whole portfolio savings are only deliverable over a protracted period of time as and when mandates are required to be changed. Due to these timing issues, this approach will require the identification of a new collaborative partner each time a process is to be undertaken.

30 Much of the learning experience gained through previous collaborations has to be reacquired for each subsequent procurement exercise undertaken. No additional internal resilience is gained by this approach, as each Fund will need to retain the personnel experienced in procurement/manager selection.

Option 4: Co-investment via an Existing Collective Investment Vehicle (CIV)

31 When considering co-investment, funds must make a decision on joining an existing collaborative fund management structure or establishing a new collaborative jointly owned structure.

32 By subscribing to an existing co-investment, scale economies could be demonstrated. However, there would be limited opportunity to drive either investment philosophy or to play a defining role in the governance of the structure. The London CIV will become operational later this year or early next year and has stated that it will be open to collaboration with other LGPS funds. Considerable work has been undertaken by these bodies, with structures agreed and management staff recruited. In terms of the ownership of the London CIV, it is expected that such status will be available to London Boroughs only.

33 The London CIV has progressed well with the intention to make available specific asset classes to be populated by a range of investment managers whose services will be offered at a negotiated uniform fee level for all LGPS funds within the vehicle. However, passive is the only category available currently. Moreover, it should be noted that some investment managers have declined to be part of the London CIV (including the best performing UK Equities manager and Global Equities manager), so while fee savings may be achieved, this may be at the cost of lost performance.

34 The London CIV will have FCA registration and the cost base will be borne by the initial founding partners, then probably levied as a surcharge to future investors, thus making it more straightforward proposition to bear the total cost, given the large base of LGPS funds. Each authority retains control over asset allocation and will be able to pursue an independent, alternative approach in manager selection if the CIV option is deemed unsuitable.

35 FCA registration will be achieved in two main stages: authorisation of the operator (the London CIV itself) by late summer/autumn 2015 and authorisation of the Fund. Both will be assessed by the FCA, with the application for the operator being looked at first. Every FCA regulated company must hold a certain amount of regulatory capital. This amount will increase as the CIV develops up to a maximum amount. It is probable that the regulatory capital requirement will be held as share capital from the start of the CIV's operation, and that this will be funded by the authorities involved.

36 Many of the issues arising from the simple collaborative procurement model above are resolved with this approach, for example, timing, alignment of procurement processes, and the selection of collaboration partners. It should be possible to achieve enhanced fees savings through economies of scale in procurement and the scale of assets within portfolios. External consultancy and professional fees can also be reduced, e.g., investment consultancy fees.

Option 5: Co-investment via a New Collective Investment Vehicle (CIV)

37 By the creation of a new co-investment vehicle with at least one other LGPS fund and a clear delegation of authority and lead from the separate LPGS fund committees to make investments (within clearly defined boundaries), some of the issues arising from the joining of an existing entity are resolved. Each LGPS authority would retain control over its asset allocation, but with potentially limited manager choice and slower decision making, given the need to involve several authorities.

38 Scale economies could be achieved on reduced fee levels, but there would need to be a clear link between the cost of the additional administration layer and the fee savings generated. It should be noted that the trade unions are objecting to this link. The initial work load and cost to create the new CIV would be substantial. The time factor arising from the FCA registration process is significant. It is doubtful that just two county funds combining, for example, would achieve the necessary savings after taking into account the additional administration layer and associated cost base.

39 The London CIV has highlighted that creating a new CIV is both costly and time consuming. At its meeting in July 2015, the London CIV Joint Committee reported that it would need £4.55m in regulatory capital to support an asset base of £15bn, which was regarded as the minimum required to make the CIV viable. It should also be noted that the costs of the systems required to satisfy regulatory compliance and risk monitoring are likely to be very high. A newly created CIV would need a robust business plan to mitigate the business risks associated with such a venture. It would be possible to mitigate the costs and risks to a large extent by having one (or more) investment management firm as part of the CIV ownership. However, this might compromise the perception of the CIV's independence if it was seen to be too closely tied to a single provider, unless it was clearly a stepping stone towards creating an internal investment management capability.

Option 6: Combined Approach with an Existing Joint Vehicle to cover all asset classes

40 This option provides a platform, involving the entire merger of the existing investment teams of two or more funds. To ensure a strong governance structure, and to provide reassurance to all parties that the delegated structure was operating effectively, it is likely that most of the assets would be best managed within a regulated structure. The role of the merged team would be to deliver the investment strategy for the larger asset pool (and liability pool) with the overall fund strategy agreed by a Joint Committee containing representatives of each fund, and in the context of the pooled fund's overall fund objectives.

41 Such a vehicle would be able to offer a number of different investment strategies, mirroring the funds' current asset allocations. The collaborating parties would retain flexibility and accountability for the strategies to which they allocated funds. Flexibility would be retained for individual funds to switch their asset allocation between different strategies.

42 Each strategy would benefit from a larger pool of assets to deploy, ensuring generation of economies of scale and lower fee levels. A further benefit would be the scalability of the model with the possibility of offering services to other authorities in the future, in the same way that the London CIV is evolving.

43 Individual authorities would have some flexibility to tailor asset allocation and risk management, but manager choice and strategy implementation would be centrally controlled by the joint committee.

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44 Surrey could join an existing joint vehicle (the London Pension Fund Authority (LPFA)/Lancashire is the only current option) and would retain some flexibility to tailor its asset allocation and risk management, but the manager choice, investment strategy implementation and liability management would be centrally controlled by the one organisation. The Lancashire/LPFA vehicle will become operational early next year and has mooted the possibility of receiving assets from other funds. However, it is very unlikely that Surrey would be represented on the managing Board.

Option 7: Work with Other Authorities to create a new FCA registered Joint Vehicle to cover all asset classes

45 This option is the same as Option 6 but would result in a brand new platform, involving the entire merger of the existing investment teams of two or more funds within a regulated structure. The role of the merged team would be to deliver the investment strategy for the larger asset pool (and liability pool) with the overall fund strategy agreed by a Joint Committee containing representatives of each fund, and in the context of the pooled fund's overall objectives. Such an option can work on the basis of primarily internal fund management or the majority use of external managers.

46 It requires a firm commitment to the transfer of assets and a clear delegation of authority from the separate LPGS funds to make tactical investment decisions at the new entity level (with Surrey and the other associated LGPS funds retaining responsibility for strategic asset allocation). In essence, this would be similar to current operations in Surrey, with the pension fund committee retaining strategic asset allocation. However, tactical decision-making (including investment manager selection) would be delegated to the combined entity rather than within the pension fund committee itself.

47 Such a vehicle would offer various investment strategies, mirroring the funds' current asset allocations. The difference here is that the collaborating parties would drive the direction of the new entity from the moment of its creation. Again, the parties would retain flexibility and accountability for the strategies to which they allocated funds and could switch asset allocation between different strategies. Manager choice and strategy implementation would be centrally controlled by joint committee. With a new creation, Surrey would have a degree of control.

48 Establishing the joint vehicle would be a significant effort and may require inclusion of an asset manager to access the relevant skills, compliance structure, risk management and IT systems. The Lancashire/LPFA model already has sizeable internal teams, and is in the process of merging these forces.

49 A further benefit would be the scalability of the model with the possibility of offering services to other authorities in the future, in the same way that the Lancashire/LPFA collaboration is evolving. A new structure allows the initial funds in the partnership to retain a much greater discretion and control over overall management, transfer of assets, reporting processes and team resilience. Additionally, if the right partner is chosen, it should be possible to achieve enhanced fees savings through a mix of both economies of scale in procurement and greater use of internal management.

50 Taxation is also a major consideration, both in the choice of vehicle and the time scale in which it is most beneficial to move (or otherwise) the assets into any chosen structure. Both the London CIV and the LPFA/Lancashire model have taken extensive taxation advice in the work leading to the choice of vehicle type, and it would be expected that any new venture would require a similar approach.

51 Through the creation of a single investment team, this model enables current issues of capacity and resilience (key person risk) to be addressed. Larger combined asset allocations also enable greater access to opportunities (predominantly in alternatives) that are not available to a smaller entity.

52 A new joint vehicle would need to involve LGPS funds with sufficient collective assets to make £25bn to £30bn a realistic asset base within three years (by April 2019). With regard to the set up process of a new joint vehicle, one of the options open to a joint venture approach by two or more LGPS funds is to 'rent' an off-the-shelf structure from an experienced provider (consultant, fiduciary or asset manager). This would avoid the considerable workload, cost and time scale associated with creating a new version. Such a structure would be intended to be a stepping stone (three to five years) to a longer-term 'owned' solution where the required expertise would be provided in-house. The rented structure would be subject to a tender process.

Current Position

53 Several funds have come forward as being keen to engage in initial conversations. All have confirmed that they understand that these discussions are at an information gathering stage only, and the approach at the moment is exploratory work aimed at scoping what options there may be that could provide beneficial solutions to the similar issues that we are all currently facing. The intention of these discussions is that these options are then to be presented to each fund’s committees, either before or after the release of the consultation, for their full consideration and steer as to future direction.

54 Depending on the vehicle chosen, the initial work load and cost to join or create a vehicle will be considerable. There is also an implementation time factor to consider, i.e., the Financial Conduct Authority (FCA) registration process. As such, there would need to be a clear link between the additional benefits and savings generated versus the implementation costs and the ongoing additional administration costs of the new operational model chosen.

55 Whatever structure is chosen, a new project could ensure that Surrey could be instrumental in driving its governance and investment philosophy, and ensure the other objectives of cost reduction, improving internal resilience and capacity could all be addressed.

56 Due to the short time since the budget announcement and the desire by officers not to advance too far before they have reaffirmed members’ wishes that they proceed to investigate the options, little additional progress has been made on the subsequent decisions. Rather, officers have used the time to educate themselves on the structures that are available to utilise a pooled investment vehicle and the benefits and considerations of each. Hence this report seeks support for further exploratory work with other funds.

57 By joining an existing vehicle, such as the London CIV, much resource could be saved with continued focus on the existing governance and strategy of the Fund.

58 However, a compelling option is the creation of a new joint vehicle project, where one of the LGPS partners has a substantial in house capability. This could result in a real drive down of costs though the internal management capacity, without a significant rise in investment performance.

59 Consideration must also be given as to how pooled assets on a very large scale can be democratically accountable locally. Also, on a similar theme, how can pooled vehicles on this large scale represent differing stewardship and responsible investment policies?

Ranking of Options Available

60 A matrix, setting out a summary of the following, is shown as Annex 1.

- Control over investment strategy

61 Control by the committee would remain high with any newly formed entity, but low where an existing entity is joined. Framework agreements and combined buying would result in a high degree of control retained.

- Implementation challenge

62 Entities that would be required to be created by Surrey and its partnership would be a significant challenge. Financial Conduct Authority (FCA) registration is a formidable mission and has caused much work for both the London CIV and the LPFA/Lancashire joint vehicle. There is less of a challenge reference existing entities already set up, although Surrey would be asked, no doubt, to contribute to past costs of implementation.

- Costs of participation: implementation and ongoing

63 Substantial costs would be associated with any new entities (CIV or joint vehicle). It is envisaged that joining an existing entity would offer some savings in the initial set up costs, whilst the most basic approaches of framework agreements and combined buying would incur a low cost.

- Cost savings expected (fee savings)

64 The entity thought to generate most fee savings is envisaged to be a joint vehicle (both from joining an existing or creating a new joint vehicle). Alternatively, by joining or by creating a CIV, it is anticipated that low savings would be generated in passive investments, medium savings would be generated in active investments and higher savings would be generated with regard to alternatives. Combined buying in specific asset classes is envisaged to generate high savings (especially illiquid assets). Framework work agreements (passive most likely) are envisaged to generate low savings.

- Cost savings expected (internal costs)

65 Similarly, the entity thought to generate most internal cost savings is envisaged to be a joint vehicle (both from joining an existing or creating a new joint vehicle). Again, by joining or by creating a CIV, it is anticipated that low internal cost savings would be generated, given the need to cover the costs of administering the CIV. Framework work agreements (passive most likely) are envisaged to generate low savings.

- Timescale: how quickly we could achieve the expected cost savings

66 Annex 1 sets out the anticipated speed of achieving cost savings with regard to each option. A combined approach with an existing joint vehicle would achieve the required cost savings in the fastest time.

- Existing resources relative to required resources

67 Annex 1 sets out the extent to which new resources would be required with regard to each option. Setting up a brand new CIV or setting up a new joint vehicle would expend the most resources.

- Investment alignment: shared objectives and philosophy

68 Annex 1 sets out the extent to which an investment alignment of objectives and philosophy is needed. An existing vehicle, new joint vehicle and combined buying all require a high level of investment alignment.

- Potential to gather additional LGPS assets

69 Annex 1 sets out the potential to gather additional LGPS assets. Existing CIVs or joint vehicles are regarded as having a better chance of gathering LGPS assets.

70 The London CIV and LPFA/Lancashire joint vehicle at least provide an indicative benchmark for time scale and cost for which Surrey could apply to the new versions of each.

CONSULTATION:

71 The Chairman of the Pension Fund Committee has been consulted and has supported the range of options in order to inform and generate discussion on the proposals that are available for consideration concerning the future direction of the Surrey Fund in terms of asset pooling and reducing its cost base.

RISK MANAGEMENT AND IMPLICATIONS:

72 The risk contained within the Chancellor’s announcement is that local authorities must put forward their own proposals for delivering savings against the backdrop of pending legislation that will impose mandatory pooled investments against those administering authorities that do not come forward with sufficiently ambitious proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

73 The major financial implication is the government's drive to deliver substantial savings against the current £660m investment manager fee base within the 89 funds of the LGPS. Future papers for the Committee will set out a full cost base of the various proposals put forward for consideration.

DIRECTOR OF FINANCE COMMENTARY

74 The Director of Finance will ensure that proposals will be worked on and presented to future meetings of the Pension Fund Committee in order that sufficiently ambitious proposals for cost savings can be generated.

LEGAL IMPLICATIONS – MONITORING OFFICER

75 Following the Chancellor's statement, in the event that the Treasury does not consider the Surrey Pension Fund's approach to meet the objectives as set out by the Treasury, then the Fund may be subject to enforced pooling of assets or some other measure as directed by the Treasury.

76 There are no further legal implications at this stage. However, in undertaking exploratory work, officers are seeking to consider a number of options to meet any potential regulatory framework to be put in place.

77. In making a final decision on the approach to be adopted by the Surrey Pension Fund, regard must be had to the views of the various Scheme Employers in decisions concerning the investment of the Fund's monies and any impact this may have on them as contributing employers.

EQUALITIES AND DIVERSITY

78 There is no requirement for an equalities and diversity assessment at this time, but this will be reviewed when criteria have been established.

OTHER IMPLICATIONS

79 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

80 The following next steps are planned:

- Further research and report to the Pension Fund Committee.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Committee Chairman.

Annexes:
Annex 1: Cost Saving Structures Analysis

Sources/background papers:
None

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