

CIPFA Pensions Network Workshop

1st October 2015

Pension Fund Partnerships – The Lancashire and London Pensions Partnership (or how to learn the Preston – London rail timetable)

George Graham
Director – Lancashire County Pension Fund

Outline

- What the collaboration is (and what it is not)
- Why?
- How?
- Challenges?
- Where are we up to?
- Future?

What?

- In simple terms:
 - Create a big pot of money to invest
 - Create a shared service to run pension funds (a Pension Services Organisation)
- It sounds simple when you say it quickly!
- **What it is not is a fund merger**

Why?

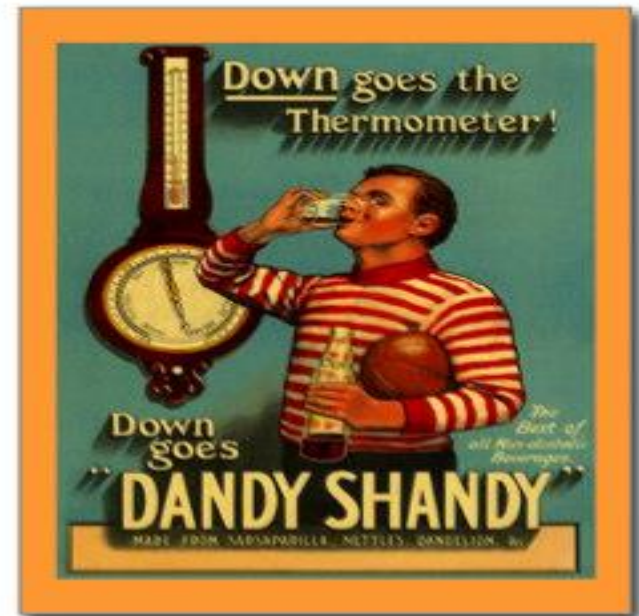
- Bigger pools of assets are able to get access to investments that smaller ones rarely do
- Bigger pools of assets can negotiate lower fees and also support in-house specialist resource
- Administration services dealing with a larger client base can achieve economy of scale and support greater investment in technology
- Demonstration of collaboration within LGPS to reduce costs and increase efficiency

An unlikely pairing?

LCPF



LPFA



...not really

- Two different organisations with different histories, different governance structures and cultures, and different powers, coming together to create an LGPS partnership with shared objectives
- Sharing a common belief that better and more sustainable pension funds will be achieved through collaborative activity based on existing centres of excellence



Benefits

In financial terms

- Financial benefits in the business case come from:
 - Negotiated fee reductions and insourcing some investment activity.
 - Renegotiating administration ICT contracts
- Total financial benefits very prudently estimated as £32m within 5 years.
- We've not yet fully explored all the potential benefits and have ignored more speculative ones.

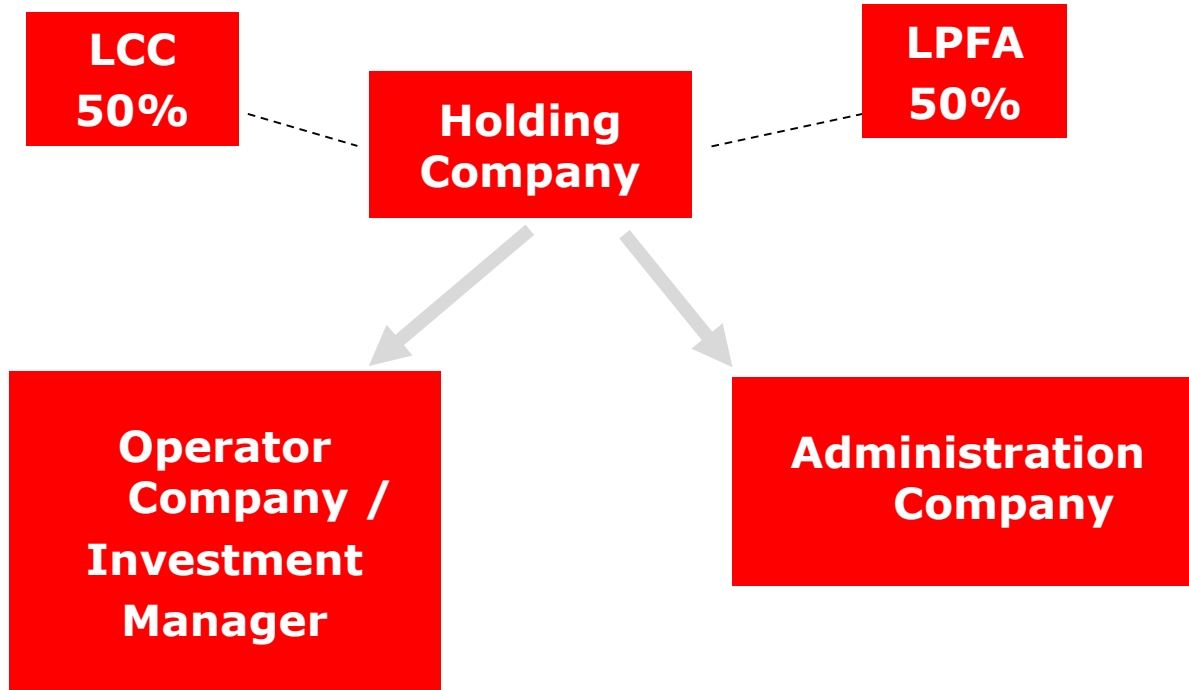
Other benefits

- Continues the local link but broadens reach
- Enhances governance
- Will ultimately impact on stabilising contribution rates for employers
- Deficit reduction and improved management of liabilities
- Creates an LGPS centre of administrative expertise – covering both member and employer functions
- Potential to spread costs further by opening up to further funds

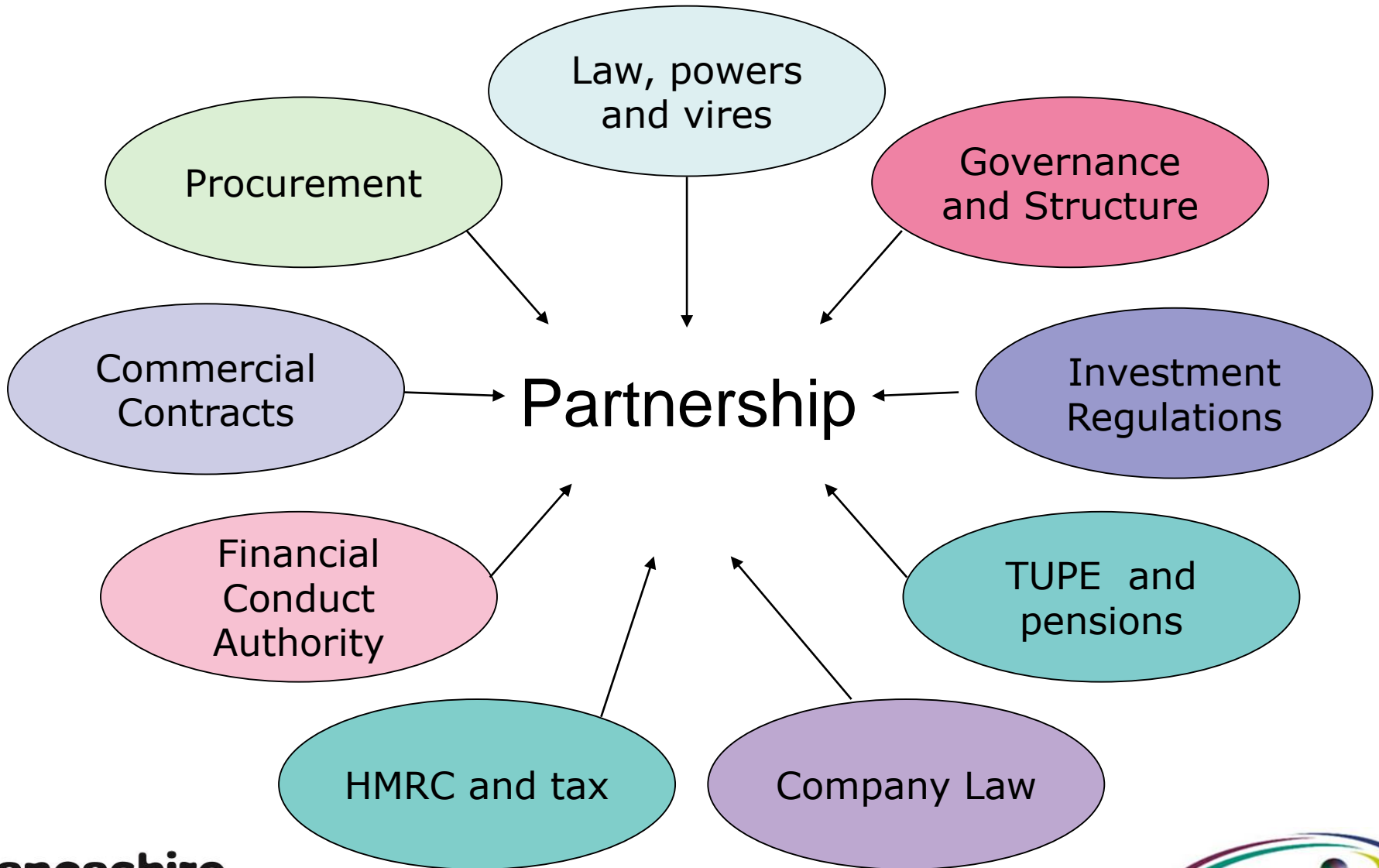
Biggest winner to date?



How?



Challenges



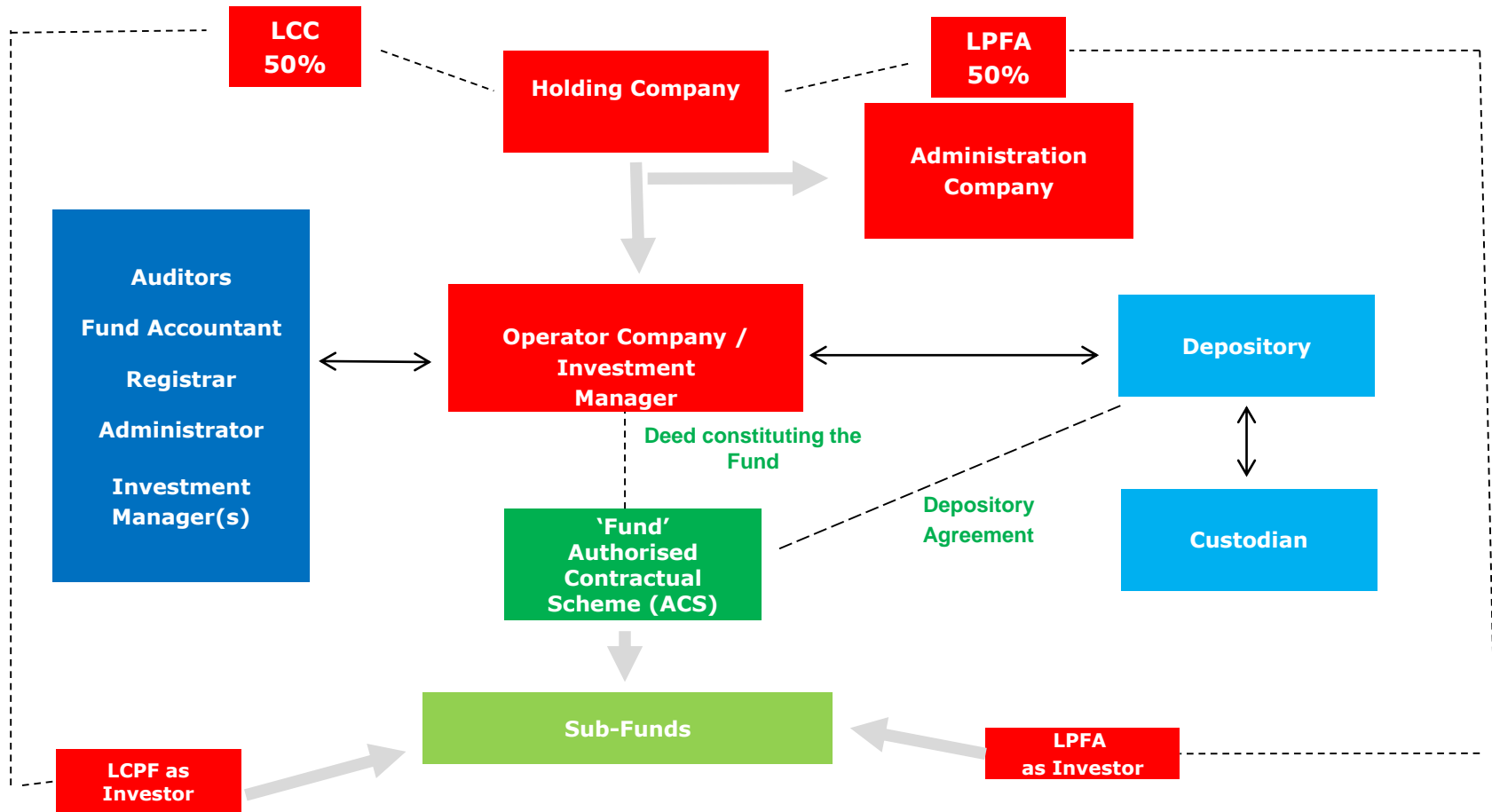
Challenges

- Legal
 - Both LGPS but different powers
 - Creation of new legal entities
 - Procurement and service take-on
- Governance
 - Political buy-in
 - Maintaining the sovereignty of LCPF and LPFA
 - Oversight of the new organisation
- Regulatory
 - Financial Conduct Authority requirements
 - Existing Investment Regulations
 - Taxation considerations
- Staffing
 - Sensitivities and TUPE transfers
 - Culture change

Most significant constraint?



Mechanics



Where are we up to?

July
2015

Gateway
Decision
1



August

Legal creation
of NewCo

Begin key
procurements

September

Appointment
of Chair
NEDs and
CEO

October

Submit
FCA
Application

November

Agree overall
management
structure

Gateway
decision 2 –
Business
Viability

December

Complete key
Procurements

January
2016

Establish
final
business
model and
transition
phase

February

Board
Approve
Year 1
Business
Plan

March

FCA
Approval
Granted
To Fund

April

Newco
goes
live

Immediate future

- Gateway decision 2 – 10 Nov 2015
- Appointments of Non-Executives and Chair
- Procurement of services
- FCA application for operator and ACS
- Management structure agreed
- Intended go-live from 1 April 2016

Any questions?

