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Report to: **Pension Committee**

Date: **30 November 2016**

By: **Interim Chief Finance Officer**

Title of report: **LGPS Pooling – ACCESS Update**

Purpose of report: **To provide the Pensions Committee with a summary and the conclusions from the ACCESS Chairs meeting including the recommendation to rent an operator.**

RECOMMENDATIONS

The Committee to note the content of this report, and approve the agreement of the Chairmen on the 2nd September 2016 to initially rent the operator function, with a view in the medium term to wholly own the operator.

1. Background

1.1 The ACCESS pool proposal for the pooling of assets was submitted to Government by the deadline date of 15 July 2016. The Government Minister and civil servants have been reviewing the pool submissions, and the formal go-ahead decision is expected before November 2016.

1.2 The work undertaken by ACCESS since the submission has primarily been focused on whether the ACCESS pool should build and own its own investment company (operator) or rent one from a third party. An evaluation of the advantages and disadvantages of owning versus renting an operator was presented to the Chairs of the Pension Committees of the ACCESS group at its 2nd September meeting, where the ACCESS Chairs agreed to recommend the renting of an operator model, and invite this Committee to endorse that decision.

2. ACCESS Pool Proposed Governance Structure.

2.1 The 13th October 2016 meeting of the ACCESS Chairmen focused on Governance and delegations, i.e. -

- Governance Structure (Appendix A);
- Agree the Terms of Reference for the Joint Governance Committee (JGC);
- Officer Working Group remit;
- Procurement of legal advisor for Inter Authority Agreement (IAA).

2.2 The purpose of the JGC is to ensure that the strategic investment requirements of the Constituent Authority funds are being met by the pool, to monitor performance of the Operator and hold the Operator to account, set out a strategic plan, short term business plan and budget for the pool.

2.3 In agreeing the Terms of Reference it is acknowledged that the role and functions of the JGC will change over time. In particular a distinction is drawn between the initial (and any subsequent) procurement and appointment of the Operator (“the procurement phase”) and the continued management of the Pool (“the operational phase”). It may be necessary to review and amend the Terms of Reference, from time to time, to acknowledge changes to the purpose and functions of the JGC. Notwithstanding this, the JGC shall review its terms of reference at least annually and make recommendation to the constituent authorities as to any changes deemed necessary.

2.4 Governance work is ongoing on an Inter Authority Agreement between the eleven sponsoring Pension Funds. This will be a legally binding document addressing key issues such as- decision making powers, voting and financial arrangements, etc.

2.5 The ACCESS Fund(s) has commissioned a legal advice on the Inter-Authority Agreement (IAA) forming part of the formal governance arrangement for the pool. The expected scope of

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advice will include, the preparation of draft Heads of Terms for discussion, drafting of the full Inter-Authority Agreement, cost sharing arrangement, and the legal team attendance at a briefing session of the Chairmen of the individual funds.

3. To Rent or Build and Own an Operator

3.1 The Chairmen reached a unanimous agreement, at their meeting of 2 September to rent an operator initially but, given the scale of the ACCESS pool and with longer term cost efficiency in mind, there is support within the group for retaining an option to transition to a wholly owned Operator in the medium term. This agreement is subject to ratification by all of the individual administering authorities in the pool according to the applicable constitutional and governance protocols of each.

3.2 Collective work by officers and advisers has indicated there are a limited number of credible, established suppliers with a proven track record in delivering Operator services and capable of operating at the required scale (possibly between 6 and 8 potential suppliers). However analysis of the market (including discussions with potential suppliers) provides confidence that there will be sufficient choice and significant competition in the procurement process.

3.3 Analysis (Appendix B) based on input from suppliers, advisers and lawyers indicates that renting a third party Operator reduces the implementation timescale by more than six months relative to the timetable for delivery of a built and owned Operator.

3.4 As part of the assessment of the two options officers commissioned legal opinion from Eversheds and met with potential third party operators such as Capita and Mercer. In addition, Capita attended the Chairs meeting on 2 September to explain the role of an operator and the responsibilities of this role.

4. Central Government Pooling “Green Light

4.1 The potential costs of pooling across the Funds are significant, for example annual running costs of between £2m to £4m. The Chairmen therefore, unanimously agreed the need for confirmation from Central Government that the ACCESS pool proposals submitted in July 2016 are approved, prior to incurring further material costs on the Pooling agenda.

5. Investment Pooling Governance Principles for LGPS Administering Authorities

5.1 This month sees the launch of CIPFA’s guidance on Investment Pooling Governance Principles for LGPS Administering Authorities. Hymans summary attached as Appendix C. The guidance is designed to assist administering authorities in applying good governance principles as they move towards, and participate in, the new era of pooled assets. It focuses mainly on governance from the perspective of the individual authorities participating in a pool, rather than the pool’s own governance arrangements

6. Conclusion and reasons for recommendations

6.1 The Committee is recommended to continue to work with the ACCESS group to achieve the best outcome of assets pooling for the East Sussex Pension Fund, and agrees the recommendation by the ACCESS Chairs to rent an operator with the flexibility to move to an owned model in the future.

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Local Member(s): All
Background Documents - None