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Sixty second summary

Investment Pooling Governance Principles for LGPS Administering Authorities

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How can you secure your Fund's objectives in a post pooling world?

This month sees the launch of CIPFA's guidance on Investment Pooling Governance Principles for LGPS Administering Authorities. 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.

This guidance follows closely on the heels of the Investment Regulations and DCLG guidance on producing the new Investment Strategy Statement. Although not directly focussing on investment issues, this guidance is a useful reminder that the ability to successfully deliver an investment strategy cannot be divorced from the governance that underpins it.

Administering Authority Focus

Quite naturally, a lot of elected member and officer time has lately been focussed on understanding the requirements of asset pools and developing knowledge of new elements such as fund operators, Authorised Contractual Schemes and FCA regulation. In working with a number of pools, however, we have been keen to stress that the journey involves several stakeholders and the overall governance of pools needs to acknowledge this. Only by giving proper weight to all of the elements can the likes of legal and contractual matters, financial regulation and locally accountable democracy dovetail properly.

We welcome the fact that this guidance gives some pointers to administering authorities in terms of reviewing their internal governance arrangements. For example, administering authorities should be considering what changes may be needed to its scheme of delegation and to the terms of reference of its pension committee in order to deliver its objectives in a post pooling world.

The fundamentals don't change

There is no doubt that asset pooling represents a big change to the way the LGPS works and no one underestimates the work required to deliver it. However, in many ways the fundamentals don't change. Administering authorities will retain their responsibility for the management of all aspects of the fund as well as their fiduciary duties to scheme employers and scheme members.

Although manager appointments will in future be made by the pool rather than by individual funds, it will remain the responsibility of individual pension committees to set their own investment strategy and decide asset allocation. The pool needs to be set up to enable individual funds to implement their locally decided strategy.

Each administering authority will still need to develop its own policies on matters such as ESG and voting rights and work with the other participating authorities in the pool to ensure that these policies can be delivered.

We believe that the core attributes of a good fund remain the same. Good funds will continue to have clear objectives, well defined investment beliefs and the appropriate strategies and structures in place to deliver them. It's also important to understand the risks that might prevent funds from achieving their objectives, and committees and officers should already be thinking about whether their risk registers need updating in order to reflect the move to collective assets.

Knowledge and Skills

The guidance also updates the Knowledge and Skills framework for pension committee members and officers to reflect the additional competencies required by pooling. Most committees will currently have pooling as an agenda item at every meeting. It is important though that training plans are flexible enough to adapt to the changing landscape, that members receive training that fits in with the overall training strategy and that learning outcomes are measured and recorded.

Conclusion

Although asset pooling represents a significant change to the way the LGPS does business, the underlying principles of sound governance remain the same. Funds should ensure their own internal processes, structures and policies reflect the changing environment. There needs to be clarity about objectives and robust internal controls in order to achieve those objectives. At the same time, funds need to ensure that their members and officers can demonstrate the appropriate capability, leadership and knowledge to deliver the move to pooled assets successfully.

As an immediate list of action points, we suggest administering authorities should be considering;

- delegated responsibilities;
- the terms of reference for the committee;
- committee training;
- updating the business plan;
- building in an automatic review of administering authority governance in 12 to 18 months to ensure that that objectives are being delivered.

If you wish to discuss any of these issues further please contact;

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