

**LOCAL PENSION BOARD  
– ACCESS WORK  
UPDATE**



**Joint Governance Committee**

**Date:** 29 January 2018

**Report by:** Officers Working Group

<b>Subject:</b>	<b>ACCESS update for the Local Pension Board Chairmen</b>
<b>Purpose of the Report:</b>	To provide an update to the Joint Committee on the work associated with the ACCESS pooling arrangement, which will be shared with the ACCESS Local Pension Board Chairmen.
<b>Recommendations:</b>	<b>The Joint Committee is asked to note and agree that the ACCESS progress report be circulated to the ACCESS Local Pension Board Chairmen.</b>
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**Reasons Why this Report is Not for Publication**

This report is not for publication as it contains exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, being information relating to the financial or business affairs of any particular person (including the authority holding the information). Further, it is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information. While there may be a public interest in disclosing this information, namely that it would provide detailed information about ACCESS intentions for its investment management arrangements, it is felt that, on balance, this is outweighed by other factors in favour of maintaining the exemption, namely that these details are commercially sensitive.

## **1. Purpose.**

- 1.1 To provide the Joint Committee with a briefing paper (this report) that will be circulated to the ACCESS Local Pension Board Chairmen on the work associated with the ACCESS pooling arrangement.

## **2. Background**

- 2.1 In the summer 2015 budget the Chancellor announced the Government's intention to invite Administering Authorities to make proposals for pooling Local Government Pension Scheme (LGPS) investments. Following the Autumn Statement on 25 November 2015 the Ministry of Housing, Communities and Local Government (MHCLG) - formally know as DCLG published its criteria for pooling investments focusing on 4 elements:
  - a. Scale – it is the Government's desire that pools of assets are created with at least £25bn of assets per pool.
  - b. Strong Governance – authorities are charged with defining the mechanisms by which they can hold the pool to account.
  - c. Reduced costs – including estimated savings over the next 15 years.
  - d. Improved capacity to invest in infrastructure through pooling.
- 2.2 Subsequently the Government published revised LGPS Management and Investment of Funds Regulations that came into force on 1 November 2016. The Regulations include the power for the Secretary of State to direct a fund to change its investment strategy or direct that a fund's investment function is undertaken by another organisation if the Secretary of State determines that a fund is failing to act in accordance with guidance issued, including the guidance to pool investments according to the criteria above.
- 2.3 Following extensive work by the ACCESS Officer Working Group and its appointed technical advisors, Hymans Robertson, a joint submission was formulated in respect of the eleven ACCESS participating authorities.

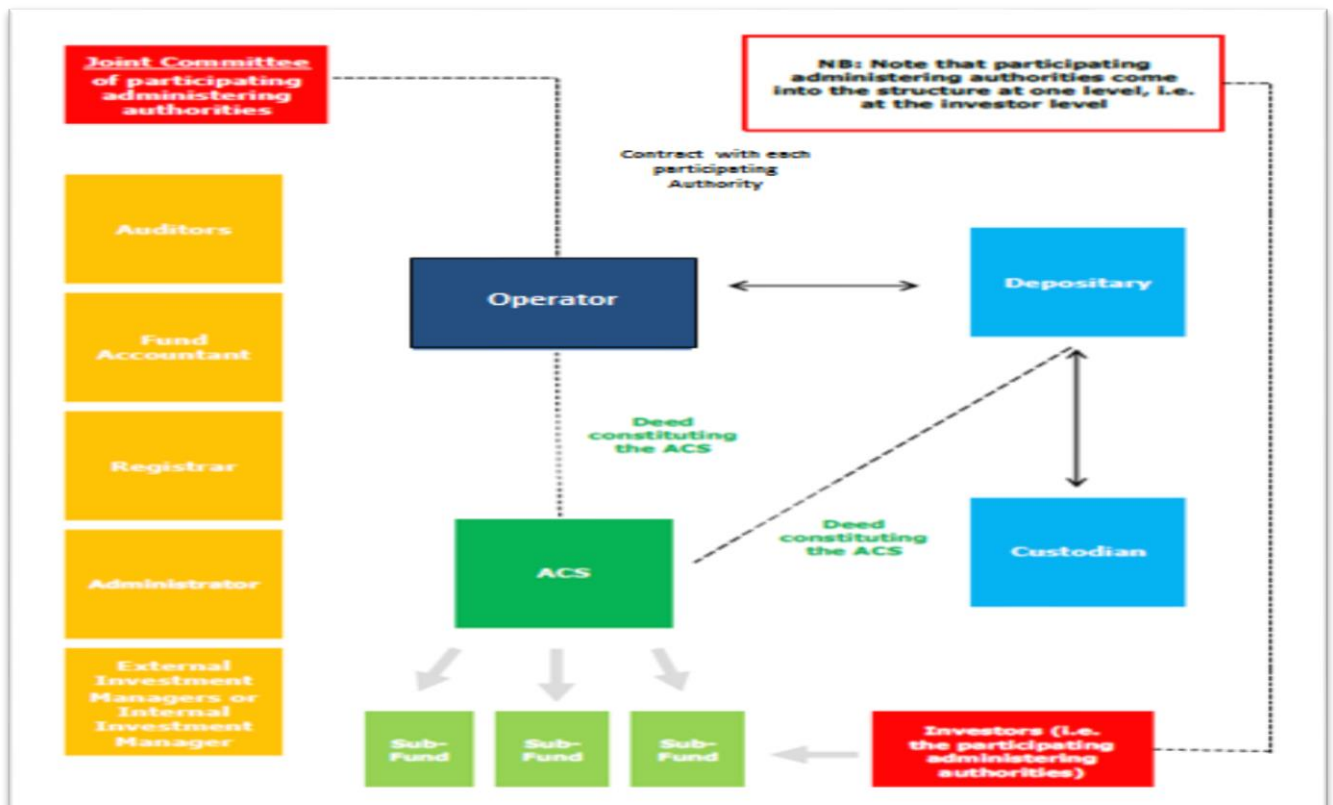
## **3. ACCESS Pool Objectives and Principles**

- 3.1 The Pool is not a merger of the eleven funds, but each participating authority will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS Regulations and pension legislation in respect of their members. Annual Statements of Accounts and triennial Actuarial Valuations will still be prepared for each individual pension fund and each fund will determine its own funding and investment strategy.
- 3.2 Participating authorities have a clear set of objectives and principles, set out below, that will drive the decision-making and allow participating authorities to help shape the design of the Pool. The ACCESS Pool objectives are –
  - a. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.

- b. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
- c. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

#### 4 ACCESS Governance

- 4.1 The ACCESS Pool is not a legal entity. However a Joint Committee (JC), comprising of elected Pension Committee Chairmen from each administering authority and supported by the Officer Working Group has been established via an Inter Authority Agreement.
- 4.2 Kent County Council has been appointed as the initial host authority, on behalf of the ACCESS local authorities, and will undertake the secretariat function.
- 4.3 Whilst the Chairmen of the ACCESS Pension Fund Committees had previously met on a shadow basis, they have now formally met thrice as an established body on 31 July 2017, 2 October 2017, and 13 December 2017 respectively. Papers from previous and future ACCESS JC meetings papers can be found using the following link: <https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898>
- 4.4 A Financial Conduct Authority (FCA) regulated Operator will provide the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eleven funds. The diagram below illustrates the CIV Structure which has been adopted by the ACCESS pool -



- 4.5 The ACCESS pool has appointed an advisor to undertake a review of its current and proposed future governance arrangements to assist with definition of roles and responsibilities and to advise where there are overlaps and potential gaps, in accordance with accepted best governance practice.
- 4.6 The MHCLG have also requested an update on the status of the project and as such, ACCESS has completed the required 'questionnaire' providing a status update. A summary of the latest submitted MHCLG update is attached below as Appendix A.

## **5. Operator Procurement Progress**

- 5.1 Some pools have chosen to "build" and own their own Operator Company and others have decided to "rent" using a third party provider. For ACCESS it was decided that the appropriate approach at the current time is to "rent". Although the rationale for the "build" or "rental" of an Operator is driven by each pool's circumstances, for example, the "build route" may be necessary for pools with in-house investment management capability. One of the key benefits of the solution adopted by ACCESS is that a third party service provider will perform the function of the Operator and they will then appoint the Depository, Custodian and other third party suppliers.
- 5.2 Following the conclusion of the evaluation phase of the procurement, the JC has considered the evaluation report and has approved the recommendation to appoint the bidder at its meeting on the 13 December 2017. This recommendation has been considered by the eleven ACCESS Administering Authorities and the final agreement is due to be completed in the next few weeks. .
- 5.3 ACCESS has taken advice on its sub-fund design and developed a draft plan for consolidation of a significant portion of participating authorities' liquid assets in the initial set of ACS sub-funds. This sub-fund proposal will allow the Operator to make rapid progress in preparing and submitting an application for authorisation of the ACCESS ACS and a set of "pilot and pipeline" sub-funds.

## **6. Passive Procurement**

- 6.1 ACCESS Pool has completed a "mini" tender process within the framework to appoint a single provider to the ACCESS pool. Following competition, the ACCESS Funds have awarded a contract for their combined passive mandate to UBS Asset Management (UK) Limited. A recommendation was considered by the JC for ratification at its October meeting. The total assets under passive management for ACCESS will be £10.5bn.

## **7. Recommendation**

- 7.1 The Joint Committee is asked to note and agree that the ACCESS work/progress report be circulated to the ACCESS Local Pension Board Chairmen.

## Appendix A

### Local Government Pension Scheme Pooling Progress Report (October 2017)

In the July 2016 Submission ACCESS authorities wrote to March Jones MP highlighting a number of benefits resulting from their pooling proposals. The below provide an update on progress.

Eventual projected <b>savings of £30m annually</b>	ACCESS authorities <b>remain confident</b> that these savings can be delivered
Plans for a <b>quick win of £4m per annum</b> from consolidating passive mandates.	This estimate has been <b>exceeded</b> – with estimated savings of £5.2m from the successful procurement and appointment of UBS Global Asset Management.
Potential for <b>greater savings</b> in the longer term as the ACCESS pool applies its leverage as one of the largest asset pools in the UK and collaborates with other pools to achieve further benefits of scale in investment management including more direct investment approaches in illiquid assets.	Assets under management for the ACCESS authorities were <b>£40.6bn at 31 March 2017</b> , with the anticipated value of assets to be held under pool governance of £39bn. The ACCESS pool has maintained its position as <b>one of the largest asset pools in the UK</b> , and will be able to apply its leverage to achieve further benefits of scale.
A pool structure composed of an <b>FCA authorised Collective Investment Vehicle</b> (the Operator and ACS and other pooled investment vehicles to hold assets).	The ACCESS authorities are <b>nearing the final stages of appointing a fully regulated Operator</b> who will in turn set up the FCA authorised sub-funds for the individual funds to invest in.
A significant shift in governance arrangements with the <b>Operator responsible for selecting and contracting with managers</b> on behalf of the authorities participating in the pool.	The <b>Operator will be wholly responsible for selecting and contracting with managers.</b>
Preserving appropriate local decision making (including strategic asset allocation) and building into governance arrangements the critical role of elected members. A Joint Governance Committee will be established which will hold the Operator to account – ensuring <b>democratic accountability</b> and exercising authority's <b>fiduciary responsibilities.</b>	An <b>Inter Authority Agreement</b> has been signed by all ACCESS authorities, which has formally established the <b>Joint Committee</b> structure.
Potential for an <b>increase in UK and global infrastructure</b> provided cost effective access to investment opportunities with the right risk / return profile emerge – ACCESS will support cross-pool collaboration efforts in developing arrangements that enable this.	The ACCESS pool continues to be <b>fully engaged with the Cross Pool Infrastructure group</b> and individual funds continue to invest in and allocate towards infrastructure investments as appropriate.