

Report to: **Pension Committee**

Date: **8 February 2016**

By: **Chief Operating Officer**

Title: **LGPS Investment Pooling**

Purpose: **This report provides an update on the work that has been undertaken to consider the Government's LGPS Investment Pooling requirements, consultation on the Investment Regulations and seek approval regarding the best pooling option for the East Sussex Pension Fund.**

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## **RECOMMENDATIONS**

**The Committee is recommended to:**

- 1. consider the report and to agree in line with the previous Committee recommendation that officers should concentrate on negotiating with ACCESS as the preferred option for the Fund, working with other like-minded funds within the ACCESS Group to create a pool of a minimum size of £25bn that meets the Government's criteria.**
  - 2. authorise the Chief Operating Officer, in consultation with Chairman of the Pensions Committee, to submit the finalised response on the East Sussex Pension Fund's pooling option; the consultation on the LGPS - Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, to the Government by 19 February 2016. A copy of this submission will be circulated to members of both the Pension Committee and Pension Board.**
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## **1. Background**

1.1 The Government announced that local authorities should put forward proposals to "pool investments to significantly reduce costs, while maintaining overall investment performance", with the publication of criteria/guidance for pooling LGPS fund assets into up to six British Wealth Funds. The East Sussex Pension Fund (ESPF) and other administering authorities are invited to come forward with their proposals for new pooled structures in line with the guidance to significantly reduce costs while maintaining overall investment performance, with the wider ambition of matching the infrastructure investment levels of the larger global pension funds.

1.2 Alongside the guidance, the Government published a consultation on the LGPS - Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, i.e., on "backstop" legislation that would allow the Secretary of State to determine the pooling arrangements for those administering authorities that do not come forward with sufficiently ambitious proposals to pool their assets with others.

1.3 The initial proposals are required by 19 February 2016, with refined and final proposals due by 15 July 2016.

## **2. Special Pension Committee Meeting**

2.1 A report on the LGPS future investment pooling options was presented to the special meeting of the Pension Committee on 12 January 2016, where the Committee resolved to:

- a. note the DCLG Criteria regarding the LGPS Investment Pooling Proposals and Consultation on the Investment Regulations;

- b. approve options for pooling the East Sussex Pension Fund assets, and approve this option as the basis on which to submit the consultation response. Officers will concentrate on negotiating with ACCESS as the preferred option, in addition to exploring the Northern (Manchester) option.

### **3. Dialogue with the Northern Powerhouse (Manchester)**

3.1 Officers on Monday 25th January 2016 had a conference call with the Assistant Executive Director, Pensions, Tameside MBC, Greater Manchester Pension Fund (GMPF), who is the officer leading on the Northern Powerhouse asset pooling work. The outcome of the discussion was circulated by the Chief Finance Officer to the Committee through e-mail on Wednesday 27 February 2016.

3.2 Officers continue to engage with other funds within the ACCESS pool, and the Chair of the Pension Committee attended the ACCESS pool event on 2<sup>nd</sup> February 2016. The event provided ACCESS Chairs with the key features of the group of funds committed to or considering working together; aims of the ACCESS pool; and principles that will guide the actions, approach and decisions of the ACCESS pool.

### **4. East Sussex Pension Fund – Pooling Option**

4.1 Following the special Committee meeting on 12 January 2016 and consideration of pooling options for the East Sussex Pension Fund assets, with agreement to concentrate on negotiating with ACCESS as the preferred pool on which to submit the consultation response, officers have met with the other Funds linked to the ACCESS group and have worked on some principles for the pool, as directed by the Pension Committee. A draft of these is attached at Appendix 1. The funds are currently all externally managed and, from an initial assessment of data, over two thirds of the funds are covered by 12 existing investment managers.

4.2 ACCESS stands for 'A Collection of Central, Eastern and Southern Shires' – a working title. The following Funds have recommended to their committees to pool through the ACCESS Group:

- i. Norfolk
- ii. Cambridgeshire
- iii. Essex
- iv. Suffolk
- v. Northamptonshire
- vi. Kent
- vii. West Sussex
- viii. Isle of Wight

4.3 The funds above would create a pool of about £22bn, and it is considered highly likely that at least one of these funds (below) will pool with the ACCESS Group, therefore achieving the £25bn target. These include:

- a. *East Sussex*
- b. Hampshire
- c. Hertfordshire
- d. Bedfordshire

4.4 The creation of any pool is likely to incur significant set up costs, along with a requirement for significant officer time and member support. Initial estimates of the set up costs are likely to be in the region of £154k per fund over the next three years, but it is too early to be more precise until we know how many funds are involved and some of the structural decisions about how the pool is created are agreed. This is based on an equal share of costs per fund.

### **5. Next Steps**

5.1 If the Committee agrees the ACCESS pool, the next activities will include-

- Officers to formally attend meetings with the other Funds linked to the ACCESS

group to move from preliminary discussions to delivering a firm proposal and help shape the outcome;

- Working on the draft submission to the Governments criteria in February, which will be circulated the Pensions Committee and Pension Board;
- Provide an update to the committee at its next meeting;
- Agreeing and signing of the draft Memorandum of Understanding of the ACCESS Pool.

### Next Steps – summary

Today	Agree objectives and principles	ACCESS member reps
By 19 February	Confirm membership/Sign Memorandum of Understanding	Individual funds
19 February	ACCESS pooling response to Government	Officers
March to June	Appoint professional advisors e.g. legal and investment	Officers
March to June	Investment analysis etc.	Officers
March to June	Governance options appraisal	Officers
March to June	Agree governance structure	ACCESS member reps
15 July	Final ACCESS pooling response to Government	ACCESS member reps

*Note – the next steps summary is an extract from the 2<sup>nd</sup> February 2015 ACCESS presentation to the ACCESS pool Chair's. The East Sussex Pension Fund was represented by the Pension Committee Chair (Cllr. Richard Stogdon).*

## 6. Conclusion and reasons for recommendations

6.1 The Government requires all Local Government Pension Funds to respond by 19 February 2016, setting out how they intend to pool their assets in the future and who they plan to form a pool with. The Committee is recommended to work with the ACCESS group to achieve the best outcome of assets pooling for the East Sussex Pension Fund.

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Local Member(s): All  
Background Documents  
None

# ACCESS POOL

## Introduction

This note is based on discussion at a work-shop held on 7<sup>th</sup> January 2016 which was attended by a number of funds (most from the south and south east regions) who are committed to or are considering working together to create one of six £25bn plus LGPS investment pools.

## Principles of the ACCESS pool



In this note we set out a draft of:

- 1) Key features of the group of funds committed to or considering working together;
- 2) Aims of the ACCESS pool; and
- 3) Principles that will guide the actions, approach and decisions of the ACCESS pool.

## Key Features of ACCESS group of funds

**Common features of the group of funds likely to participate include:**

- 1) No single dominant fund. Funds range in size but with a small number of exceptions are broadly similar in size (most in the range £2-5bn)
- 2) Manageable number of funds for participation in governance (expect c9-11 funds)
- 3) Similarities in investment approach (asset types used) and similarities in managers used (top 12 managers by AUM cover 2/3rds of the assets of potential participants)
- 4) Although not a deciding criterion for pooling, the funds are reasonably close geographically which will be helpful for joint working and governance
- 5) All use external managers (no in-house management functions within the group of funds)
- 6) Participating funds have until now focused on **what** is the right approach to pooling before considering **who** they will work with
- 7) Blank canvas – all participating funds in at the beginning and are able to help shape design of the pool
- 8) No intention to set up an investment management business
- 9) A political

## Aims of the ACCESS Pool

### Aims and objectives of the ACCESS POOL

- 1) To provide a range of asset types necessary to enable participating funds to execute their locally decided investment strategies.
- 2) To enable funds to achieve the benefits of pooling investments while preserving the best aspects of what is currently done locally and the desired level of local decision making and control.
- 3) To help participating funds to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.

## Principles

### Principles of the ACCESS POOL

- 1) All participating funds will have an equitable voice in governance.
- 2) The pool's governance will reflect the participating funds' preferences in terms of which decisions are made locally by individual funds.
- 3) The participating funds will work collaboratively.
- 4) Decision making will be objective and evidence based.
- 5) The pool will maintain standards of professionalism and risk management appropriate to the responsibilities of managing one of the biggest pools of pension assets in the UK.
- 6) The pool will avoid unnecessary complexity in its approach. The pool will aim for simplicity in approach.
- 7) The pool will evolve its approach to meet the changing needs and objectives of participating funds.
- 8) The pool will be open to innovation that will enable it to better serve the pool's participants.
- 9) The pool will be established and run economically, avoiding unnecessary cost.
- 10) The pool's costs will be shared equitably.