

Report to: Pension Committee

Date: 31 May 2016

By: Chief Operating Officer

Title: Local Government Pension Scheme (LGPS) Investment Pooling

Purpose: An update on the Government's requirement for LGPS funds to pool investments, the Fund decision to join the ACCESS Pool and to seek approval regarding the final refined submission due to be submitted in July 2016.

RECOMMENDATIONS

The Committee is recommended to:

1. **consider the report, which provides an update on working with the ACCESS Pool as the preferred option for the Fund; and**
 2. **authorise the Chief Operating Officer, in consultation with Chair of the Pension Committee, to submit the refined, detailed response from the East Sussex Pension Fund and ACCESS Pool to the Government's consultation and pooling requirements. A copy of the submission will be circulated to members of both the Pension Committee and Pension Board.**
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1. Background

1.1 In the July 2015 budget the government announced that they wanted the 89 Local Government Pension Scheme funds to pool their investments into larger pools in order to achieve savings in investment management costs. Following this in the Autumn Statement, the government published the criteria for the pooling of LGPS investment assets.

1.2 In response to the government agenda, at the 8 February 2016 meeting, the Committee formally ratified the option considered on 12 January 2016 to join the ACCESS (i.e., 'A Collection of Central, Eastern and Southern Shires') Pool. This decision was to work with the other funds in the ACCESS Pool to submit proposals to Government.

1.3 The objective of pooling the assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce whilst local accountability will be maintained as each individual fund will remain responsible for strategic decisions, including asset allocation. The pooling of assets will only affect the implementation of the investment strategy in terms of manager appointments.

2. Submission to the Government

2.1 The ACCESS initial proposal (Appendix 1) signed by the Chairs of each fund within ACCESS group was submitted to Government in line with the 19 February 2016 deadline. This proposal sets out the proposals for pooling the group's assets and how the proposal meets the Government's criteria. Developing this proposal has drawn upon the knowledge and experience of the local Funds' officers and Committees.

2.2 A final refined submission, demonstrating how the criteria will be met, is due to be submitted on 15 July 2016. This submission must fully address the detailed criteria set out in the consultation. The submission must comprise for each pool, a joint proposal from participating authorities/funds setting out pooling arrangements in detail. There is a considerable amount of

work to be done by the funds within the ACCESS Pool to decide on the legal structure of the Pool, to refine the cost/benefit analysis that has been done already, and to draw the lines, which will define what will be classed as an asset allocation decision (to be made by the fund) and what will be classed as a manager selection decision (to be made by the pool).

2.3 DCLG states that the process for establishing the pools will take around 18 months, with liquid assets transferring to the pools from April 2018. This implies pools will be finally approved by government by October 2016.

3. Impact on the Committee

3.1 How does this change impact the Committee? The only area that changes for the Pensions Committee is manager selection. The important aspects of managing the Pension Fund will all stay with the Committee; the asset allocation (e.g. how much in equities or bonds, how much in UK or overseas), the administration of the benefits, and the Fund governance. The Pool will manage the investments of the Fund, and the manager selection, in line with the asset allocation set by the Committee. The Pool will be responsible for the manager's choice, but will be accountable to the Fund for poor investment decisions. The Pool will report to the Fund on the performance of its investments, rather than the manager presentation meetings that are currently held.

3.2 ACCESS Pool has set up regular meetings, specific work-stream re each pooling criteria's, seminars, phone conferences for officer's engagement, and continue to seek legal advice on crucial decisions. In addition, there have been meetings organised by ACCESS Pool for Chairs and Vice Chairs of the constituent funds, to provide information and updates. The event provided ACCESS Chairs with opportunity to air their view on the proposed change (Appendix 2 and 3) and to be provided with the key features of the group of funds committed to working together within the ACCESS pool.

3.4 Given the timescale in which the final refined submission is required (i.e., 15th July 2016), it is requested that authority is delegated to the Chief Operating Officer, in consultation with Chair of the Pensions Committee, to submit a response to the consultation on the proposal for asset pooling as part of ACCESS Pool.

4. Options for Pooling Structures

4.1 In order to make detailed submission to the Government, due on 15 July 2016 in response to the criteria for pooling, ACCESS needs to identify the legal structure of its investment pool. This is a key decision for ACCESS as not only are there significant financial and regulatory impacts, depending on the chosen legal structure, this decision will also shape much of the rest of the July submission in terms of defining the governance of the pool and resources required.

4.2 The ACCESS Chairmen will be considering the options for ACCESS's pooling structure at their engagement meeting on 23 May 2016.

4.3 This report was amended following consideration after the Pension Board meeting on 12 May 2016.

5. Conclusion and reasons for recommendations

5.1 The Government requires all Local Government Pension Funds to respond by 15 July 2016, setting out how they intend to pool their assets in the future and the pool structure. 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.

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Background Documents

None