

## BACKGROUND

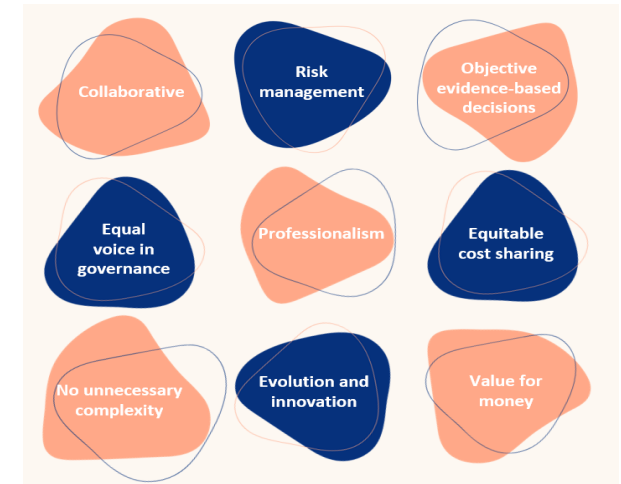


**ACCESS** is A Collaboration of Central, Eastern and Southern Shires.

Formalised shortly after the publication of the collective research study, Project Pool, in January 2016, it is a pool founded on the nine principles shown opposite.

In tandem with these principles are the fundamentals of the democratic accountability of each Administering Authority and their Fiduciary Duties held in relation to Local Government Pension Scheme (LGPS) responsibilities.

ACCESS Administering Authorities collectively constitute 1.2million LGPS members, the largest of all Pools, across almost 3,500 employers.



## CONTEXT

The “*Fit for the Future*” Consultation covers certain issues which have been previously raised in the 2023 Consultation: *Next steps on investment* and 2024’s *Call for Evidence*, upon which ACCESS’s views remain a matter of record. In aspects of this response, we refer to both the choices which ACCESS, as a pool, made at the outset of this policy initiative, and the views we continue to hold on certain matters.

We also note that, in perhaps an unprecedented development, the formal consultation “*Fit for the Future*” coincides with approximately the first half of the fifteen-week timeframe Government has set for the receipt of Pool proposals in relation to the minimum standards which are anticipated to apply from March 2026. We therefore highlight that ACCESS Authorities continue to explore options on how our pool responds to the new requirements and are working in detail on proposals to meet the ambition set out by Government. These options include building a new investment company.

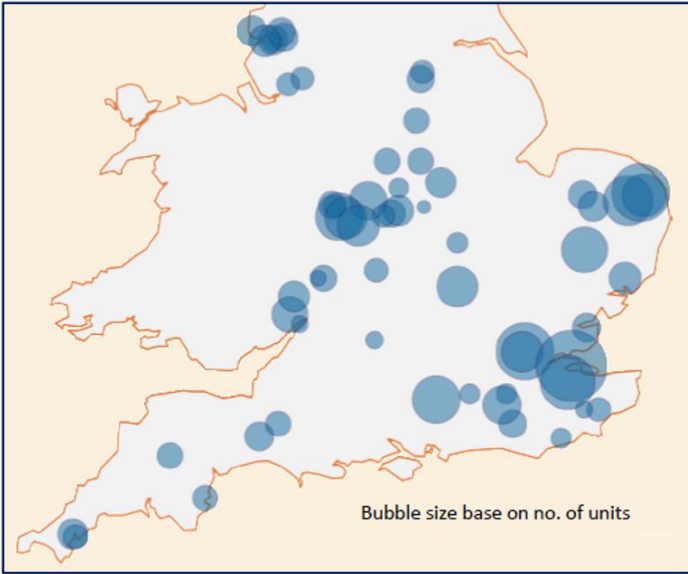
In this Consultation response ACCESS addresses the questions of relevance to Pools and Pooling.

No.	Question	ACCESS response
1	Do you agree that all pools should be required to meet the minimum standards of pooling set out above?	<p>No.</p> <p>The minimum standards proposed by Government in the consultation now incorporate elements of an approach to pooling that were not in the original guidance, and therefore not historically used by the ACCESS Pool. They also reference aspects of approaches subsequently raised by Government in the 2023 Consultation: <i>Next steps on investment</i> and 2024's <i>Call for Evidence</i>, upon which ACCESS's views remain a matter of record.</p> <p>However, it is recognised that Government views these minimum standards as developing the original pooling policy and sees their adoption as bringing consistency to the situation. Consequently, ACCESS acknowledges that these now constitute Government's view on this matter and will co-operate with the new guidance in a way that also serves the best interests of our members.</p>
2	Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?	<p>No.</p> <p>The minimum standards do not appear to reference Authorities adopting a set approach to strategic asset allocation. Clearly there remains potential for likeminded Authorities to have significant alignment in this regard, however as highlighted by the Scheme Advisory Board in their own response to this Consultation:</p> <p><i>"It is a fundamental function of the administering authority to have control over both aspects of investment strategy. Any attempt to require funds to adopt a common position would squarely cut across their fiduciary duty, in the view of the Board."</i></p>

No.	Question	ACCESS response
3	Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?	<p>No.</p> <p>It is currently not clear whether the Government's proposals would allow the fiduciary duty to be met.</p> <p>Examples of additional considerations an administering authority might judge to be part of their fiduciary duty include assessment of cashflow needs to pay pensions when due, risk-return preferences in maximising returns to pay pensions and responsible investment requirements (e.g. net zero goals).</p> <p>ACCESS notes that, owing to its concerns in this regard, the Scheme Advisory Board has instructed Nigel Giffen KC to provide an opinion on this matter.</p>
4	What are your views on the proposed template for strategic asset allocation in the investment strategy statement?	<p>The template appears to be insufficient and contains anomalies.</p> <p>To best equip Pools for the future, a greater degree of granularity should be considered. This should enable Authorities to indicate where passive and active strategies have been utilised in the past along with allocations to geographic regions.</p> <p>Although reference is given to UK Government Bonds there no mention of UK equity or UK property. The use of cash as a strategic asset (whether held at pool or fund level) is no longer commonplace.</p> <p>Other items that administering authorities would expect to specify as part of their strategy requirements include cashflow requirements, risk return requirements for each asset class, responsible investment requirements and local investment allocations.</p> <p>Whilst the approach Government prefers does apply currently in the LGPS it does so in a very small minority of instances. To embark on a change of this nature for what will be the majority of Authorities will require an appreciation of the dynamics and circumstances by Government and Pools that goes beyond simply imposing a "one size fits all" outcome.</p>

No.	Question	ACCESS response
5	Do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?	<p>No.</p> <p>In both the 2023 Consultation and the 2024 Call for Evidence, ACCESS voiced concerns about conflict of interest in this regard. Using investment consultants independent from the pool company removes this conflict, enables periodic review and replacement of advisors, and through competition drives quality and innovation that benefits the LGPS. However, ACCESS acknowledges that Government do not share these concerns, and it is clearly possible that Pools in future can develop this capacity.</p> <p>As the ultimate holders of fiduciary duty, it does remain appropriate for Administering Authorities to seek and source further advice as they see fit.</p>
6	Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?	<p>No.</p> <p>As highlighted earlier, this approach was not prescribed at the outset of pooling, and as a consequence was not the route ACCESS chose to adopt. Requiring pools to establish an FCA authorised investment management company will add significant cost without obvious material benefits over and above those delivered by current pool operating models. In terms of performance returns, the approach has not had a differentiating impact on investment outcomes over multiple time horizons, therefore the evidence in support of this approach is, at best, mixed.</p> <p>It is however acknowledged that this is a logical progression from the minimum standards highlighted in question 1, which constitute our understanding of the Government’s intentions.</p>
7	Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?	<p>ACCESS Authorities currently have over 90% of listed assets within the Pool already. Those that remain outside are either earmarked for transfer or to be used as a potential funding source for future non-listed investment allocations.</p> <p>We do not agree that passive listed investments currently invested in pooled vehicles not managed by pool companies should be transferred to vehicles managed by the pool company if the result is to incur additional costs (e.g. transition costs) and lose other scale benefits currently delivered by existing arrangements.</p>

No.	Question	ACCESS response
8	Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?	<p>ACCESS notes the Scheme Advisory Board's views on this matter:</p> <p><i>"The transfer of legacy assets needs to be managed carefully, in a way that minimises costs which can be substantial with illiquid assets for various reasons – including tax rules. It is helpful that government has recognised this and allowed for the asset to be classed as pooled via the transfer of management to the pool, rather than the actual asset – which may need to happen to a slower timescale."</i></p> <p>It is important that agreements are in place with the owners of legacy assets to ensure that pool companies managing those legacy assets take due care in considering the approach to and timing of transfer of legacy assets to pooled vehicles in order to protect value. Pool companies should consult administering authorities on which pooled vehicles the sale or maturity proceeds are invested in.</p>
9	What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?	Pools should consider the existing resource and experience at Administering Authorities, as well external hires, when considering how best to support the management of legacy illiquid investments.
10	Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?	<p>For pools, including ACCESS, whose options include establishing an investment management company in order to meet the minimum standards set out in the consultation, the deadline of March 2026 is highly challenging, but not impossible.</p> <p>It is appreciated that Ministers have sought an ambitious deadline in order to effect change. ACCESS accepts the Government's objectives and is working at pace to explore all options. However, we would also welcome both a continuation of the regular dialogue (such as that which accompanies this consultation) and an understanding that some latitude on implementation may be necessary in order to ensure the best implementation of agreed solutions.</p>
11	What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?	ACCESS is currently in dialogue with all pools on the basis of a number of questions raised within this consultation. We are happy to keep Government informed of how these discussions progress.

No.	Question	ACCESS response
13	What are your views on the appropriate definition of 'local investment' for reporting purposes ?	<p>Defining “local” as investments local to any Pool’s partner AA’s or investments within their region brings a degree of clarity. However, it should also be acknowledged that some regional initiatives will overlap or extend beyond existing AA or Pool boundaries. For example, ACCESS UK Social &amp; Affordable Housing offer, managed by LGIM, as shown below has significant exposure both within the ACCESS region and in the rest of England. As a consequence, it should still be able to be classified as fulfilling local definitions:</p> 
15	Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?	Yes.

No.	Question	ACCESS response
16	Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?	This is a logical progression from the minimum standards highlighted in question 1.
27	Do you agree that pool company boards should include one or two shareholder representatives?	<p>Yes, but only as part of wider requirements such as ensuring compliance with the FCA's Senior Managers and Certification Regime.</p> <p>Clearly resilience is better served by two representatives (rather than one), however there is a danger that this in turn is considered to be all that is necessary. Part of the logic for ACCESS adopting its outsourced model was to ensure appropriate stakeholder dialogue within the Pool structure and we note that the Scheme Advisory Board's response on this question states that <i>"the governance around pool companies and their accountability requires deeper consideration"</i>.</p>
28	What are your views on the best way to ensure that members' views and interests are taken into account by the pools?	Continuation of arrangements that enable Scheme Member representatives to observe Shareholder Board / Joint Committee meetings.
29	Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?	<p>Yes.</p> <p>Performance (both gross and net of fees) should be reported across specified time periods (i.e. up to 5 years annualised and also since inception).</p>