



Committee report

Committee	FULL COUNCIL
Date	15 JUNE 2016
Title	PENSION FUND – POOLING OF INVESTMENTS
Report of	CHAIR OF PENSION FUND COMMITTEE

EXECUTIVE SUMMARY

1. This report sets out the actions undertaken by the Isle of Wight Council Pension Fund (the fund) to date in fulfilling the government's requirement for the pooling of Local Government Pension Scheme (LGPS) investment assets, and the further actions required to complete the final submission to government on 15 July 2016.
2. Full Council is asked to note the progress made to date in complying with the requirements for the pooling of investments, and the future actions required to complete the project.

BACKGROUND

3. In 2013 and 2014 the government issued both a call for evidence and a consultation on the structure of LGPS Funds and approach to investment.
4. In the summer budget on 8 July 2015 following the General Election, the Chancellor's statement included the following:

2.19 Local Government Pension Scheme pooled investments – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

5. During August, the Local Government Association (LGA) arranged a roundtable event and, in conjunction with the Shadow Scheme Advisory Board a seminar to explore this issue. Officials from Department for Communities and Local Government (DCLG) were in attendance at both events.

6. A group of local authorities, Hymans Robertson LLP (Hymans) and the LGA began to work together under the umbrella of 'Project POOL' to deliver an evidence based, authoritative analysis of the pooling options available, and establish an understanding between the government and LGPS administering authorities to establish what pooling would look like.
7. While the fund didn't actively participate in the work streams of Project POOL, our data was submitted to inform the analysis behind the results.
8. In September 2015 and November 2015, officers attended meetings with officers from other local authorities in central, eastern and southern England in developing proposals to respond to the pooling agenda. This group is now collectively known as the ACCESS group.
9. On the 25 November 2015, the government released with its Autumn Statement the following documents:
 - (a) criteria for LGPS investment reform
 - (b) a consultation on revised LGPS Investment Regulations and
 - (c) government's response to the May 2014 consultation on "Opportunities for collaboration, cost saving and efficiencies".
10. The government's criteria for investment reform are:
 - (a) asset pools that achieve the benefits of **scale** (minimum size £25 billion at 31 March 2015 values)
 - (b) strong **governance** and decision making
 - (c) reduced **costs** and excellent value for money
 - (d) improved capacity to invest in **infrastructure**
11. In November 2015 the Government also set out a two stage response process:
 - (a) By 19 February 2016 submissions to include a commitment to pooling and a description of progress towards formalising their arrangements with other funds. This requirement has already been met (see paragraph 20)
 - (b) By 15 July 2016, refined and completed submissions to include a joint proposal from participating funds setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable. Work on this proposal is underway, and is outlined in paragraph 22 – 27.
12. It is expected that pools will be operational by 1 April 2018, and that liquid investment assets (for example equity and bonds) will commence transfer after that date. Illiquid assets (such as private equities and hedge funds) are expected to be transferred into the pool at the earliest opportunity, as these types of investment are generally made for a fixed term, and are not easily transferred until expiration.

13. On 25 January 2016, the Project POOL report was published, the key findings of which were:
- preferred approach is multi-asset pools (MAPs) formed by regional and/or likeminded groups of funds;
 - for most asset types, regional pools may give sufficient size to get majority of scale benefits / fee reductions;
 - regional or likeminded groupings also give individual funds more involvement in governance of pools;
 - for infrastructure, a national vehicle may be best (MAPs Plus) some pools may have choice of in-house and external management – effectively a manager choice and same due diligence should apply; and
 - based on current asset allocations and market values, and allowing for future asset growth in the range three to five per cent per year, the estimated eventual savings in year 10 values could grow to be in the range £190 million to £300 million per year
14. The Isle of Wight Pension Council Fund Committee and local Pension Board received a briefing from officers in late January 2016 to bring them up to speed with the requirements for investment pooling and the process towards forming the ACCESS Group. Subsequent pension committee meetings have included briefing papers and updates on progress.

ACCESS GROUP

15. The ACCESS group comprises 11 local authorities: Cambridgeshire County Council, East Sussex County Council, Essex County Council, Hampshire County Council, Hertfordshire County Council, Isle of Wight Council, Kent County Council, Norfolk County Council, Northamptonshire County Council, Suffolk County Council and West Sussex County Council.
16. A memorandum of understanding between the 11 funds covering the period to September 2016 has been drawn up, setting out how the group will work together in complying with the requirements for the July submission. This was signed by the technical finance manager, following the agreement of both the former managing director and the chair of pension committee.
17. Meetings of officers have been held regularly since January 2016, both face to face and via conference call. These meetings have covered the completion of the February submission to government, as well as information gathering from professional advisers and service providers, including very detailed legal advice; meetings with representatives from HM Treasury (HMT), DCLG and the LGA; and collaborative meetings with representatives from other pools around the country.
18. Elected members from the 11 authorities (being the chair or vice chair of each authority's pension committee) have also been meeting regularly, to discuss progress and to seek approval on key decisions put before them for further recommendation to their local pension fund committees.

19. Hymans have been commissioned to provide technical consultancy and project management support to the ACCESS group, and have prepared a very detailed project plan working towards the July submission to government.
20. The February 2016 submission to government was made on 23 February 2016, following an agreed extension to allow all local pension fund committees to agree to the document. The Isle of Wight Pension Fund Committee agreed the draft submission at its meeting on 19 February 2016.
21. The Minister for Local Government responded to the ACCESS submission in a letter to the pension committee chairs of the ACCESS group authorities on 24 March 2016. This was discussed by the elected members group at their March meeting, and a reply to the minister was made on 7 April 2016. Subsequent correspondence between the minister and the ACCESS group has been discussed and agreed at elected member meetings in April and May 2016. Copies of this correspondence have been shared with members of the Isle of Wight Council Pension Fund Committee and local Pension Board, and are available from the technical finance manager.

ACTION TO COMPLETE JULY SUBMISSION

22. The most recent meeting of the elected members from the ACCESS group, held on 23 May 2016, debated the legal structure of the vehicle to be used for investment pooling, including governance arrangements, and instructed officers to proceed in completing the July submission. Officers are now undertaking a series of further information days with suppliers and advisers, as well as identifying cost benchmarks and potential savings.
23. A draft July submission template has been provided by the LGA, on which all pools have commented. It is anticipated that the final template will be issued shortly, and will be populated
24. A number of officers from ACCESS, as well as an elected member and one of the Hymans team, will be making a technical presentation to a government panel (comprising a senior civil servant, representatives from HMT, DCLG and the Government Actuarial Department (GAD) and a City pensions expert) on 9 June 2016. This will outline the proposed submission from ACCESS, and assist in the completion of the final document.
25. Officers are expected to review the draft July submission at a meeting on 17 June 2016, and elected members will review it at their meeting on 27 June 2016, with recommendations to individual pension fund committees for its agreement and signature.
26. An extraordinary Pension Fund Committee meeting has been convened for 8 July 2016 to agree the final submission and to approve its signature by the chair of the pension fund committee.
27. Once the committees of all ACCESS funds have agreed the submission, signatures from all chairs will be obtained and the submission will be made by the deadline of 15 July 2016.

ACTION AFTER JULY 2016

28. Work will continue with the ACCESS group officers and elected members. A new memorandum of understanding will be required, formalising the relationship and agreeing the operational aspects of the pool.
29. Detailed work in finalising the operating vehicle legal structure and governance arrangements will be undertaken, as well as preparations to create new investment structures, and begin planning for the transition of investment assets from the individual funds to the pool in advance of the 1 April 2018 deadline.
30. Progress reports will continue to be made to the Pension Fund Committee and local Pension Board.

STRATEGIC CONTEXT

31. The primary objective of the fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, in accordance with the Local Government Pension Scheme (LGPS) regulations and statutory provisions. The committee aims to operate the fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

CONSULTATION

32. The Isle of Wight Council Pension Fund Committee and the local Pension Board have been fully briefed about activities in connection with the pooling of investments.
33. The chair of the Pension Fund Committee has been fully engaged with the ACCESS elected members group.

FINANCIAL / BUDGET IMPLICATIONS

34. All costs in respect of the pension fund are borne by the fund, with no direct impact on the council's budget.
35. Costs incurred to date by the ACCESS group are discussed and agreed by officers in advance of them being committed, and are being monitored on behalf of the group by Suffolk County Council. It has been agreed that costs incurred up to the July submission will be shared equally by the 11 funds involved.
36. The costs of the creation of the pooled investment vehicle and the subsequent transition of assets into that vehicle are being examined as part of the July submission process. Two of the key objectives of the ACCESS group are that the pool will be established and run economically, applying value for money considerations; and that the pool's costs will be shared equitably.

37. Further reports will be provided to the Pension Fund Committee on the costs of this project as they are determined.

LEGAL IMPLICATIONS

38. The Isle of Wight Council is the administering authority for the Isle of Wight Council Pension Fund. An administering authority is defined in the Local Government Pension Scheme Regulations 2013 as “a [local authority] required to maintain a pension fund under the local government pension scheme regulations”.
39. The Pension Fund Committee is a committee under section 101 of the Local Government Act 1972, with delegated authority to discharge the council’s statutory duties in respect of the LGPS.

EQUALITY AND DIVERSITY

40. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership.
41. Initial screening has indicated that there are no specific equality and diversity issues arising from the content of this report.

RECOMMENDATION

42. Full Council is asked to note the progress made to date in complying with the requirements for the pooling of investments, and the actions required in future to complete the project.

BACKGROUND PAPERS

43. Papers released with the 25 November 2015 Autumn Statement
- a) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf
 - b) <https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme>
 - c) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479721/Government_response_-_consultation.pdf

44. Isle of Wight Council Pension Fund Committee – approval of February 2016 ACCESS submission

<https://www.iwight.com/Meetings/committees/IW%20Pension%20Fund/19-2-16/Paper%20B.pdf>

Contact Point: Jo Thistlewood, Technical Finance Manager, ☎ 821000
e-mail *jo.thistlewood@iow.gov.uk*

CHRIS WARD
Director of Finance

CLLR IVOR WARLOW
Chair of Pension Fund Committee