



The submission from the
ACCESS pool
in response to the
LGPS: Investment Reform Criteria and Guidance

On behalf of

Administering Authority Logo

Cambridgeshire County Council

Administering Authority Logo

Essex County Council

Administering Authority Logo

Isle of Wight Council

Administering Authority Logo

Norfolk County Council

Administering Authority Logo

Suffolk County Council

Administering Authority Logo

East Sussex County Council

Administering Authority Logo

Hampshire County Council



Kent County Council

Administering Authority Logo

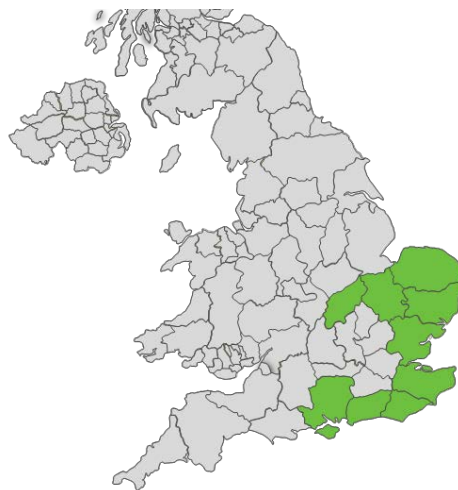
Northamptonshire County Council

West Sussex County Council

Introduction

The ACCESS pool is grateful for the opportunity to present details of its plans and the progress it has made in meeting the Government’s requirements as published in the Department for Communities and Local Government’s *Local government pension scheme: investment reform criteria and guidance* documentation on 25 November 2015.

ACCESS (a collaboration of central, eastern and southern shires) has been formed in order to respond to the Government’s investment reform criteria. The map below illustrates the confirmed participants in the ACCESS pool.



It is clear that the strong approach and have set out a which have been

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

participating authorities have a commitment, commonality of objectives. The ACCESS authorities clear set of guiding principles, summarised below:

The ACCESS authorities have created a pool with assets of £30bn which clearly meets the Government’s criterion. In addition, the authorities have historically taken a broadly similar approach to investing which will enable the pool to achieve its role of delivering scale benefits whilst helping participating authorities to continue to manage their specific liability and cash-flow requirements. For example:

- The average return for the authorities participating in the ACCESS pool exceeded the WM Local Authority Average over the medium term (five years).
- 75% of the pool assets are invested across 12 managers.
- 60% of the pool assets are invested in equities.
- 75% of the pool assets are actively managed.
- All funds have some exposure to passive investment.

[ACCESS Funds average funding level vs LGPS average will be provided here]

These characteristics illustrate the very solid building blocks on which the pool has been formed. This foundation will assist the ACCESS authorities when working collaboratively to deliver the various formative stages of the asset pool. This includes the formulation of final detailed proposals in July 2016, through to the eventual transfer of liquid assets in 2018. This shared approach will serve as a positive influence and stand the ACCESS pool in good stead over subsequent decades and enable participating authorities to execute their fiduciary responsibility to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.

It is already clear that there are substantial potential benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise. Each authority is committed to establishing a viable pool and ensuring the permanency and stability of any proposed structure.

ACCESS authorities would welcome engagement from Government Officers to discuss this proposal further.

Signed

Administering Authority Signature

Cambridgeshire County Council

Administering Authority Signature

Essex County Council

Administering Authority Signature

Isle of Wight Council

Administering Authority Signature

Norfolk County Council

Administering Authority Signature

Suffolk County Council

Administering Authority Signature

East Sussex County Council

Administering Authority Signature

Hampshire County Council

Administering Authority Signature

Kent County Council

Administering Authority Signature

Northamptonshire County Council

Administering Authority Signature

West Sussex County Council

Progress in meeting the pooling criteria

The Government's Investment Reform programme, and the creation of six asset pools, represents a significant project with considerable challenges in terms of size, technical and legal issues and agreeing a sustainable demographic governance model. It is important therefore that all aspects of the design and implementation are the outcome of informed and evidenced consideration by each authority participating in the pool.

The authorities participating in the ACCESS pool made a conscious decision to consider carefully the evidence on the most effective design of pools before detailed work on the ACCESS pool was undertaken. The proposal set out here has been heavily influenced by the work of Project POOL which many of the ACCESS authorities participated in. The ACCESS authorities are now able to make good progress, confident that its proposal is on a firm and informed basis.

Members of S101 Pension Committees, officers and other interested parties participating in ACCESS have engaged in this process and are committed to establishing a viable pool. All participating authorities have signed up to a Memorandum of Understanding (MoU) which underlines our commitment to investment pooling and the permanency of any proposed structure. It also sets out the basis for engagement, cost sharing and governance. The MoU has been appended to this submission.

ACCESS authorities have a clear project plan in place which sets out how each of the participating authorities will collaborate effectively to come to clear, objective, evidence based decisions. The authorities have jointly commissioned Hymans Robertson to provide project support and have established a Project Board to drive forward the business case for submission in July 2016, and the implementation that will follow. The project plan has been appended to this submission and shows how additional professional support will be sought when required. The participating authorities are comfortable with the progress made to date and are confident that the required work can be completed in advance of the July 2016 submission.

Finally, ACCESS authorities are establishing relationships with the wider LGPS community participating in other pooling groups, where possible, to ensure best practice, national coordination and optimal costs savings are achieved.

Asset pool(s) that achieve benefits of scale

The ACCESS group has created a pool with assets of £30bn.

The current pool size may increase in the near future as additional authorities considering their options formalise their decision.

The assets by authority at 31 March 2015 have been set out below. As the allocation figures suggest no single authority dominates the pool, which helps ensure a more collaborative approach to governance and cost sharing.

Authority	£m	Allocation
Cambridgeshire County Council	2,268	7.6%
East Sussex County Council	2,740	9.1%
Essex County Council	4,906	16.4%
Hampshire County Council	5,111	17.1%
Isle of Wight Council	483	1.6%
Kent County Council	4,515	15.1%
Norfolk County Council	2,930	9.8%
Northamptonshire County Council	1,850	6.2%
Suffolk County Council	2,193	7.3%
West Sussex County Council	2,964	9.9%
Total	29,959	100.0%

Whilst the scale criterion has clearly been met it is important to note that there is already a significant commonality in investments and associated suppliers:

75% of the assets are invested across 12 managers which will potentially allow 'early wins' in delivering cost optimisation for those participating in the ACCESS pool.

There are 71 different managers used across the authorities currently set to join the pool which will also allow for further rationalisation to be a targeted and managed process in the years to come.

Strong Performance and Decision Making

The Government's criterion seeks to maintain democratic accountability within any larger pooling arrangements and this is considered to be crucial to ensuring a successful pool.

ACCESS authorities have a clear set of shared objectives and principles, set out below, that will drive the decision making process over the next five months and allow all participating authorities to help shape the design of the pool.

Objectives

- 1) Enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.
- 2) Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
- 3) Enable participating authorities 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.

In order to achieve these objectives, the ACCESS authorities has established the following guiding principles

Principles

The participating authorities will work collaboratively.

All participating authorities will have an equitable voice in governance.

Decision making will be objective and evidence based.

The pool will use professional resources as appropriate.

The risk management processes will be appropriate to the pool's scale, in recognition of it being one of the biggest pools of pension assets in the UK.

The pool will avoid unnecessary complexity in its approach.

The pool will evolve its approach to meet the changing needs and objectives of those participating.

The pool will be open to innovation that will enable it to better serve the pool's participants.

The pool will be established and run economically, applying value for money considerations.

The pool's costs will be shared equitably.

The pool is committed to collaboration with other pools where there is potential to optimise benefits.

Work is underway to determine the governance structure for the ACCESS pool, the mechanisms by which the authority can hold the pools to account and the processes for making decisions.

The governance arrangements for the ACCESS pool will facilitate, in an economically efficient way, authorities' preferences on local decision making within the government's framework requirements for pools.

The project plan sets out key milestones for the governance work stream to ensure proposals are finalised by July 2016 and can be operational thereafter to support the transition of assets within the government's timetable.

Reduced Costs and Excellent Value for Money

The ACCESS authorities have initiated detailed work to accurately quantify the potential savings in investment fees, in the near term and over the next 15 years. These savings will be set out in the July 2-2016 submission.

The ACCESS authorities believe that it is critical that current costs and potential for savings are assessed professionally and using consistent methodology across all authorities and all pools. To this end the pool is proposing to use third party benchmarking expertise with experience of the global market for pension funds.

2013 will be used as the cost benchmark to take account of savings LGPS authorities have made since then.

The ACCESS authorities endorse the estimated annual cost savings published by Project POOL indicating that circa £145-190m per annum could be saved across English and Welsh authorities via pooling arrangements, ten years after pooling has been implemented. This could increase to c£240-320m per annum if future asset growth of 5% per year for ten years is assumed.

As Project POOL noted, actual cost savings could be greater due to:

- competition when pools appoint external managers driving fees down
- additional savings on less visible layers of fees on alternative assets
- greater use of “in-house” management

This should mean that over the very long term, the costs of transition and establishing and running the pools will be more than recouped by savings and other benefits.

However, in the short term the costs of implementing change are likely to exceed the savings.

The work to establish the savings for the authorities participating in the ACCESS pool will begin very shortly as set out in the project plan. As part of its work over the next five months, the ACCESS authorities will also assess the potential of its intended investment approach including the potential for active management to provide higher net returns. The work will also examine implementation costs and proposals for reporting.

The ACCESS authorities recognise the long term potential for costs savings from in house management and are committed to considering how best to develop or access such capability over the longer term.

An Improved Capacity to Invest in Infrastructure

Sixty per cent of ACCESS authorities currently have some exposure to infrastructure, with strategic allocation levels of [Range across ACCESS Funds to be included]. These are invested in infrastructure in a range of strategies, including investment directly into infrastructure funds. However actual investment levels range between 0% to 3% and £381m across the pool illustrating the current challenge of putting capital to work in appropriate investment opportunities and structures.

ACCESS authorities are committed to investigating all options for providing the participating authorities with access to the most appropriate infrastructure investments to match their asset allocations, including, if appropriate, working with other LGPS authorities or pools nationally to create a vehicle which will help make appropriate infrastructure investments more accessible to the LGPS at a lower cost. To ensure success, such a vehicle should be designed to meet the specific needs of LGPS investors given the distinctive nature of LGPS pension liabilities and risk appetite. If the vehicle can deliver access to the appropriate type of infrastructure investment ACCESS authorities believe that in the long term there is potential for the ACCESS pool to achieve an asset allocation closer to larger global funds.

Planning to carry out this work has commenced and a full response will be provided in July.