



## Committee report

COMMITTEE	<b>ISLE OF WIGHT PENSION FUND COMMITTEE</b>
DATE	<b>08 FEBRUARY 2019</b>
TITLE	<b>STATUTORY GUIDANCE ON ASSET POOLING IN THE LOCAL GOVERNMENT PENSION SCHEME</b>
REPORT OF	<b>TECHNICAL FINANCE MANAGER</b>

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### EXECUTIVE SUMMARY

1. This report presents the request for consultation on guidance from the Ministry of Housing, Communities and Local Government (MHCLG) in respect of asset pooling in the Local Government Pension Scheme (LGPS).
2. The draft guidance was issued on 3 January 2019, for informal consultation for a period of 12 weeks, ending on 28 March 2019.
3. Members are asked to receive the draft guidance, and determine what, if any, response should be made to the consultation from the Isle of Wight Pension Fund.

### CONFIDENTIAL / EXEMPT ITEMS

4. One of the appendices is exempt from disclosure by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972 (as amended) as it “relates to financial or business affairs of any particular person”, (including the authority holding that information). The public interest in maintaining confidentiality outweighs the public interest in disclosing it. Disclosing the information could place the council at risk of legal challenge from individuals or other bodies identified in the report.

### BACKGROUND

5. The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector.
6. The Isle of Wight Pension Fund joined with ten other LPGA funds to form the ACCESS pool. The funds have worked together since early 2016 to establish the pool based on the guidance issued by the (then) Department for Communities and Local Government (DCLG).

7. As members will be aware, the ACCESS funds have appointed Link Fund Solutions Limited to be the operator for the pooled investments. Link has established a number of sub-funds into which investments have commenced. Work continues to establish further sub-funds to fulfil each of the constituent funds' strategic investment requirements.
8. ACCESS has established a governance framework which includes the joint committee of the chairmen of each of the participating funds, officer working groups, and the section 151 officers and monitoring officers of each fund. A governance manual is in the process of being finalised, and training will be delivered to all relevant parties in due course.
9. The ACCESS Support Unit has been agreed, and recruitment continues to the key positions. In the interim period, the pool is supported by external consultants for project management and support.

## CONTENTS OF GUIDANCE AND CONSULTATION

10. MHCLG has prepared new statutory guidance on LGPS asset pooling. This sets out the requirements on administering authorities, replacing previous guidance, and builds on previous ministerial communications and guidance on investment strategies.
11. They are now inviting views on the attached draft guidance. This will be an informal consultation with interested parties only, including the Scheme Advisory Board, pensions committees, local pension boards, and the pool joint committees or equivalent.
12. The consultation was launched on 3 January 2019 and will remain open for 12 weeks, closing on 28 March 2019.
13. The draft consultation document contains eight sections:
  - (i) Introduction.
  - (ii) Definitions.
  - (iii) Structure and scale.
  - (iv) Governance.
  - (v) Transition of assets into the pool.
  - (vi) Making new investments outside the pool.
  - (vii) Infrastructure investment.
  - (viii) Reporting.
14. Introduction sets out the background to the publication of this guidance, and the former publications it replaces. It states that the guidance will have statutory force, and that administering authorities are required to act in accordance with the revised guidance. It is not proposed to comment on this section.
15. Definitions explains the terminology used in the remainder of the guidance. This is useful to ensure that all parties (pools, funds and government) are using the same terms, which should facilitate comparison of structures and outcomes. It is not proposed to comment on this section.
16. Structure and scale confirms the expected benefits of pooling and sets out the requirements that pools *must* be established through Financial Conduct Authority (FCA) regulated companies. This is a formalisation of previous expectations,

where pools had challenged whether a collaborative procurement approach would be sufficient to meet the terms of pooling, rather than the incurring the additional costs of FCA approved companies.

17. This section specifies that pool governance bodies (i.e. the ACCESS joint committee) should regularly review the provision of services to the pool, and that pool members (i.e. individual funds) should regularly review the balance between active and passive investment management.
18. Section 3.6 of the guidance specifically states that funds “*should* consider moving from active to passive management where active management has not generated better net performance over a reasonable period” and should “seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles”.
19. Members may wish to consider whether this section acts as direction that funds should adopt passive investment management mandates in preference to active management, or whether it codifies something which is already part of the funds’ processes for reviewing and revising their strategic asset allocation.
20. Governance clarifies the expectations of governance at both pool and individual fund levels, and the role of pension committees and pension boards in respect of pools at a local level.
21. In terms of value for money, the guidance specifies that funds *should* take account of benefits across the pool and the scheme as a whole and should not seek simply to minimise costs in the short term.
22. It confirms that pool members (i.e. local funds) are responsible for deciding their investment strategy and asset allocations, and that the pool companies (i.e. Link) should provide a range of pool vehicles to deliver those asset allocations.
23. This clarification of roles and responsibilities within the pool, and the determination of value for money and savings generated, is welcomed.
24. Transition of assets to the pool confirms the expectation that assets should be transitioned to the pool as quickly and cost-effectively as possible. It allows that assets may be temporarily held outside the pool until existing contractual arrangements expire, specifying that those assets held outside the pool be regularly reviewed to determine the continued validity of them remaining outside the pool.
25. Making new investments outside the pool clearly sets the expectation that new investments to satisfy changes in investment strategy following the 2019 valuation *should* only be made outside the pool in very limited circumstances.
26. It is not proposed to comment on either of the above sections.
27. Infrastructure investment confirms there is no specific target for infrastructure investment for funds or pools, rather an expectation that pooled vehicles be made available to facilitate investment allocations from all pool members. There is no restriction on the geographical location for infrastructure assets (e.g. UK or global), and the description of what constitutes infrastructure assets is to be based on

Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and will include residential property.

28. It is reassuring that there is no target allocation specified, and no restrictions on asset category or location.
29. Reporting sets out the information which funds should include in their annual reports in respect of total investment costs and performance, including the rationale for all assets continuing to be held outside the pool. There will be extensive reporting on costs and performance relative to relevant indices within funds' 2018-19 report.
30. This section also clarifies the responsibilities of pool members in ensuring that reporting from the pool company meets the requirements of the guidance.
31. It is not proposed to comment on this section.

### STRATEGIC CONTEXT

32. The key objectives of the fund are:
  - (a) 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) regulation and statutory provisions;
  - (b) to ensure sufficient assets are held to meet the assessed cost of the benefits; and
  - (c) to maintain an appropriate balance between stable, affordable employer contributions and investment risk.
33. The ACCESS pool will support the fund's investment strategy by ensuring that appropriate investment sub-funds are available to fulfil the fund's strategic investment requirements, generating savings in investment manager fees without compromising investment performance.
34. Robust governance arrangements within the ACCESS pool will be reflected in the governance and reporting arrangements for each of the participating pension funds.

### FINANCIAL / BUDGET IMPLICATIONS

35. The Isle of Wight Pension Fund's share of all the cost of the ACCESS pool will be borne by the pension fund, rather than the council's budget.
36. Costs involved in the transition of investments into the pool, and the subsequent investment management fees will be shared by the participating funds in proportion to their assets under management.
37. Reporting on the fund's engagement with the ACCESS pool will be included in the annual report and accounts at each year end, in accordance with the requirements of CIPFA guidance.

## 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.
40. There is no legal requirement for the fund to comment on the draft guidance, but there is an expectation that administering authorities will act in accordance with the revised guidance once it is published.

## EQUALITY AND DIVERSITY

41. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
42. There are no implications for any of the protected characteristics as a result of participation in the ACCESS pool, nor in complying with the revised guidance.

## EVALUATION

43. The draft statutory guidance on asset pooling has been issued for informal consultation, as described above.
44. Based on a review of the document, and information provided by the fund’s investment consultants (included as the exempt appendix 2 to this report), there is not considered to be anything contentious in the consultation which would necessitate a response from the committee.
45. Officers are therefore recommending that the draft statutory guidance be noted and accepted, and that no formal response is provided.
46. Further updates to the committee will be provided once the consultation period is closed, and the statutory guidance is published.

## RECOMMENDATION

47. That the committee notes the draft guidance and determines whether a response from the Isle of Wight Pension Fund will be provided.

APPENDICES ATTACHED

48. [Appendix 1: Draft statutory guidance on asset pooling in the Local Government Pension Scheme.](#)
49. Appendix 2 (confidential): Note from Hymans Robertson LLP on draft statutory guidance.

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