



Report of: Corporate Director of Resources

Meeting of:	Date	Agenda item	Ward(s)
Pensions Sub-Committee	25 March 2019		n/a

Delete as appropriate		Non-exempt
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SUBJECT: LGPS STATUTORY GUIDANCE ON ASSET POOLING

1. Synopsis

- 1.1 This report covers the MHCLG guidance that sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

2. Recommendation

- 2.1 To note the LGPS statutory guidance attached as Appendix I
- 2.2 To consider and submit any comments to the MHCLG by 28th March 2019

3. Background

- 3.1 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. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.
- 3.1.1 This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The government believes the time is now right for new guidance to support further progress.
- 3.1.2 The guidance document –Appendix 1 covers the following
- Introduction

- Definitions
- Structure and scale
- Governance
- Transition of assets to the pool
- Making new investments outside the pool
- Infrastructure investment
- Reporting

3.2 Members are asked to review the draft comments below and agree a final version for submission by the deadline.

Islington's overall view

3.2.1 The Islington fund is part of LCIV and was one of the first London boroughs to pool its assets in 2015. Subsequent to that just under 50% of total portfolio now sits on the LCIV platform. The assets we retain are either closed funds that will have to run until the end of the funds life or asset classes or products determined by our strategic allocation that are not available to our pool. We believe pool fund definition should be widened to recognise where local authorities collaborate to procure an investment (not available in the pool company) with a fund manager and are treated as an LGPS share class to attract reduction in fees. We do not believe the pools have had enough time to prove themselves on selection of managers to achieve optimum performance net of fees and value for money to pay our pensioners and sustain our funds and as such, the mandated 2020 date should be flexible. Governance of the pools is very essential and in its early days some best practise, guidance will be helpful.

3.3. Further detailed comments on the sections are listed below for review by Members:

Section 2 definitions

3.3.1 **Pool company'** *the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members.*

Comment: we welcome this clarity of what is a pool company

Pool fund' *a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS).*

Comment we would welcome the recognition of local authorities collaborating to invest outside ACS defined as pool fund.

Section- Structure and scale

3.3.2 *Regular review of services and procurement*

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks www.nationallgpsframeworks.org where appropriate.

Comment: transition management would be a good example of using the national LGPS procurement framework.

3.3.3 **Section - Governance**

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset

allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

Comment: some good practices or guidance to hold pool companies to account will be helpful.

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

Comment: Whilst accepting that this may be a preference for some pool members, in the LCIV where there are 32 pool members, we believe the governance body is not fully representative and equipped to decide which aspect of asset allocation is tactical and strategic. Perhaps pool members should agree individually with the pool company rather than implementing a general policy that may not meet a pool members objective and accountability to its council tax payers.

3.3.4 Section 6- Making new investments outside the pool

Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.*
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.*

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place:

Comment: Where a pool member should make an investment tailored to particular liabilities specific to that pool member does the cap of 5% apply? I would imagine a fund nearing a fully funded position and de-risking would require more than 5% of total fund to implement such a strategy.

It is very helpful that pool members may invest in a pool other than their own where specialism by a pool can deliver improved net returns over the long term. Is there a criteria of what specialization will mean across all pools?

4. Implications

4.1 Financial implications

None applicable to this report. Financial implications will be included in each report to the Pensions Sub-Committee as necessary.

4.2 **Legal Implications**
None applicable to this report.

4.3 **Environmental Implications**
None applicable to this report.

4.4 **Resident Impact Assessment**
None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

5. Conclusion and reasons for recommendation

5.1 Members are asked to consider the Asset Pooling Statutory Guidance and review the initial draft comments and make a final submission to MHCLG by 28th March 2019.

Background papers:

None

Final report clearance:

Signed by:

Received by: Corporate Director of Resources Date

Head of Democratic Services Date

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