

Suffolk Pension Fund Committee

Report Title:	ACCESS Submission to DCLG
Meeting Date:	11 July 2016
Chairman:	Councillor Andrew Reid
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Brief summary of report

1. This report provides an update of Suffolk's intention to pool its Pension Fund assets within the ACCESS Group.

Action recommended

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| <ol style="list-style-type: none"> 2. The Committee is asked to consider the ACCESS pooling business case and approve it for submission to DCLG on 15 July, in line with the Governments timetable. |
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Reason for recommendation

3. The Pension Fund Committee has been kept informed of the work to complete the business case and Councillor Reid has attended sessions with other ACCESS Fund chairman to steer the work of officers. The Pension Fund Committee has delegated responsibility for the investment of the Fund's assets, so any future change must be approved by the Committee.
4. There are no alternative options.

Main body of report

5. Since September last year the Pension Fund Committee has received regular updates on the Governments proposals for pooling and Suffolk's response to it.
6. At the Committee meeting on 27 January 2016, the Committee agreed to join the ACCESS Group with 10 other like-minded Funds to create a pool to meet the Governments published criteria. The intended pool size is just under £34bn.
7. The ACCESS Group submitted an initial response in February 2016, signed by the Chairs (or Vice Chairs) of the 11 Pension Funds.
8. The Government accepted the ACCESS initial response and like other prospective pools was asked to submit a business case document fully addressing the government's four criteria.
9. As a reminder the submission is required to describe:

10. **A. Asset pool(s) that achieve the benefits of scale:** The 89 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:
 - a. The size of their pool(s) once fully operational.
 - b. In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.
 - c. The type of pool(s) they are participating in, including the legal structure if relevant.
 - d. How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.
 - e. The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.
11. **B. Strong governance and decision making:** The proposed governance structure for the pools should:
 - i. At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;
 - ii. At the pool level, ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.
12. Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:
 - a) The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.
 - b) The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.
 - c) Decision making procedures at all stages of investment, and the rationale underpinning this.
 - d) The shared objectives for the pool(s), and any policies that are to be agreed between participants.
 - e) The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.
 - f) How any environmental, social and corporate governance policies will be handled by the pool(s).

- g) How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.
 - h) How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.
 - i) The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.
13. **C. Reduced costs and excellent value for money:** In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.
14. Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.
15. As part of their proposals, authorities should provide:
- a) A fully transparent assessment of investment costs and fees as at 31 March 2013.
 - b) A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.
 - c) A detailed estimate of savings over the next 15 years.
 - d) A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.
 - e) A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance.
16. **D. An improved capacity to invest in infrastructure:** Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:
- a) The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
 - b) How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than an existing fund, or "fund of funds" arrangements.

- c) The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.
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- 17. The officers of the Suffolk Pension Fund have worked closely with officers from the other 10 ACCESS Funds, with the support of Hymans Robertson in developing the business case which addresses each of the criteria. There has been regular input in the drafting of the submission by all the Chairs (or acting Chairs) of the eleven Pension Fund Committees.
 - 18. The ACCESS Group were invited to meet with DCLG, Cabinet office and Treasury officials on 9 June to update them on our current thinking and to report progress on meeting the Government's 15 July submission date. ACCESS was represented by five officers (from Hampshire, West Sussex, Hertfordshire, Essex and Norfolk) and one elected member (this was Andrew Reid, the Vice Chair of the Suffolk Pension Fund). The feedback from this meeting was that they were happy with the progress that ACCESS was making but they thought the group's savings target was too conservative. Further work has been done in this area and annual investment management savings are now predicted to be £30m once monies have transitioned over a 15 year period.
 - 19. A copy of the submission is attached at Appendix 1.
 - 20. The Committee are asked to consider the submission and approve that it is signed on behalf of the Suffolk Pension Fund by the chairman.
 - 21. It is still anticipated that pooling of assets is likely to start from April 2018, in accordance with Government expectations. However, DCLG have confirmed that the announcement of approved pools will not be made until the autumn, leaving a compressed time to plan the implementation.

Sources of further information

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| a) 27 January 2016 Pension Fund Committee - Agenda Item 5 |
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