



Pensions Fund Sub-Committee
27 February 2019

Report from the Chief Finance Officer

MHCLG Statutory guidance on asset pooling in the Local Government Pension Scheme Consultation

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	1
Background Papers:	▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

- 1.1 The Ministry of Housing, Communities and Local Government (MHCLG) have launched an informal consultation on draft new statutory guidance on asset pooling. This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets and builds on previous Ministerial communications and guidance on investment strategies.
- 1.2 They are now inviting views on the draft new statutory guidance. The closing date for responses is 28 March 2019.

2.0 Recommendation(s)

- 2.1 To note the fundamental change resulting from the draft new guidance is that the Brent Pension Fund will no longer be responsible for the selection and dismissal of managers. Instead this responsibility will now be carried out by the pool. The committee is asked to define their response to this development.
- 2.2 To note the report and the draft statutory guidance and that the Chief Finance Officer will prepare a formal response to the consultation on behalf of the Brent Pension Fund before the consultation closes, in consultation with the Chair of the Pension Fund Sub-Committee.

3.0 Detail

- 3.1 On 3 January 2019 the MCHLG issued new draft statutory guidance on Local Government Pension Scheme (LGPS) asset pooling. This new guidance aims to support further progress in the reform of LGPS investment management which began in England and Wales in 2015. The draft statutory guidance is provided in appendix 1.
- 3.2 A summary of key points are as follows:
- 3.3 Pool members must appoint a pool company or companies to implement their investment strategies in order to maximise the benefits of scale. This includes:
 - the selection, appointment, dismissal of investment managers.
 - the management of internally managed investments.
 - the provision and management of pool vehicles including pool funds
- 3.4 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.
- 3.5 Pool members should take account of the benefits across the pool and across the scheme as a whole and should not seek to simply minimise costs in the short term.
- 3.6 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period. Pool governance bodies should seek to minimise the transition costs to pool members.
- 3.7 Some existing investments may be retained by pool members on a temporary basis, if the cost of moving the existing investments exceeds the benefits of doing so.
- 3.8 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.
- 3.9 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. These assets should not normally exceed 5% of the value of the pool member's assets.
- 3.10 Whilst there is no target for infrastructure investment for pool members or pools, pool members are expected to set an ambition on investment in this area.

- 3.11 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

4.0 Initial observations

- 4.1 The previous guidance on asset pooling was issued in 2015 and since then eight asset pools are now operational and new guidance is required in light of experience and in response to the issues that have arisen so far.
- 4.2 Following the period of consultation the guidance will be statutory and administering authorities will be required to act in accordance with it.
- 4.3 69% of the Brent Pension Fund's investments are invested with the LCIV as at 31 December 2018. Going forward, the Fund's investment strategy has stated that the fund will be investing with the LCIV where suitable investment opportunities are available. On that basis the draft statutory guidance is welcome as it is clearly linked to the Fund's investment strategy and investment beliefs that were agreed in November 2018.
- 4.4 Some of the existing investments in the Fund are however long-term investments and will therefore be part of the Fund's portfolio for many years. For example, the fund has £25m of undrawn capital commitments with Capital Dynamics and Allinda and these investments will take many years to reach their end date. However, as part of the new investment strategy, no new commitments will be made to these fund managers and therefore the Fund is compliant with the draft statutory guidance.
- 4.5 We consider that strategic asset allocation remaining the responsibility of administering authorities as a positive statement.
- 4.6 The guidance encourages investment in infrastructure as a result of the pool being able to provide the scale, capacity and capability needed for cost effective investment in order to generate secure long term returns. This statement links well to the current investment strategy of the Fund (with a 15% target asset allocation) as it considers the infrastructure investment the LCIV will have available for investment in April 2019.
- 4.7 Overall the draft guidance is as a whole positive and provides clarity in respect of a number of important issues in relation to asset pooling within the LGPS.

5.0 Legal Implications

- 5.1 Not applicable

6.0 Equality Implications

- 6.1 Not applicable

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable

8.0 Human Resources

8.1 Not applicable

Report sign off:

Conrad Hall
Chief Finance Officer