City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**14 March 2019**
Classification:	**General Release**
Title:	**Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance on asset pooling in the Local Government Pension Scheme consultation**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 The Ministry of Housing Communities and Local Government (MHCLG) has been preparing new statutory guidance on LGPS asset pooling. This guidance will set out the requirements on administering authorities, replacing previous guidance, and builds on previous ministerial communications and guidance on investment strategies.

1.2 The Ministry is inviting views on the draft guidance, and the consultation process will close on 28 March 2019.

2. RECOMMENDATIONS

2.1 The Committee is recommended to note the draft guidance on pooling and express any desired feedback for the consultation process.

3. BACKGROUND

3.1 The MHCLG has drafted new statutory guidance on Local Government Pension Scheme (LGPS) pooling.

3.2 This draft guidance replaces section 7(2)(d) of the ‘Guidance for Preparing and Maintaining an Investment Strategy’ that was issued in September 2016 and it also replaces the ‘LGPS: Investment Reform Criteria and Guidance’ that was issued in November 2015.

3.3 This draft guidance has been issued under the relevant powers of the Secretary of State, and Administering Authorities are required to act in accordance with it.

3.4 The MHCLG is conducting an informal consultation and has invited views from interested parties. The parties include the LGPS Scheme Advisory Board (SAB), Local Pension Boards, Pension Fund Committees, and companies owned by participating funds, for example, the London CIV among others.

4 MHCLG DRAFT GUIDANCE

4.1 In summary, the key points are as follows:

4.2 Pool members must appoint a pooling company to implement their investment strategies, including the selection, appointment and dismissal of investment managers.

4.3 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.

4.4 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. However, some existing investments may be retained by pool members on a temporary basis if the cost of moving the existing investment to a pooling vehicle exceeds the benefits of doing so.

4.5 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 implement revised strategies post 1 April 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

4.6 There is no target set for infrastructure investment for pool members or pools, but pool members are expected to declare an ambition on investment in this investment category.

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

5 CONSULTATION ANALYSIS

5.1 The MHCLG’s draft Statutory guidance on asset pooling, uses the words: “must”, “should” and “may”.

5.2 The choice of language provides some indication of the extent to which Funds should adhere to the MHCLG's guidance.

5.3 **The "musts"**

- A reminder that assets must be pooled.
- The pool company must be appointed to implement investment strategies.
- The pool company must decide which managers are used for pool vehicles.
- The pool company must be regulated by the Financial Conduct Authority (FCA).
- A governance body must be established and maintained to set the direction of the pool and to "hold the pool company to account".

5.4 **The "shoulds"**

- Administering authorities should regularly review the balance between active and passive management.
- Administering authorities should take a long-term view of pooling implementation and costs, taking account of the benefits across the pool and should not seek simply to minimise costs in the short term.
- Administering authorities should only make new investments outside the pool in very limited circumstances.
- Asset allocation "strategic" should remain an administering authority decision, whilst manager selections are "tactical" and should be undertaken by the pool company. Note that committees are responsible for a range of decisions, many of would not defined as either strategic or tactical, e.g., choice of benchmark and mandate outperformance targets, etc.
- Transitioning of assets into the pool should be implemented as quickly and cost effectively as possible, with the process expected to take place over a relatively short period.

5.5 **The "mays"**

- Assets may be retained, in exceptional cases, outside the pool e.g., closed ended funds, life funds and direct property.
- Administering authorities may Invest through pool vehicles in a pool other than their own.

- Pooling may result in pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure (with the definition of infrastructure to include housing).

- Administering authorities may Invest a small proportion of assets in local initiatives or in products tailored to particular liabilities specific to that pool member.

- Administering authorities may call upon members of Local Pension Boards as potential observers on pool governance bodies.

6 IMPLICATIONS

6.1 The table below outlines the main sections of the draft guidance and the implications for the Administering Authority when the Regulations come into force:

Section reference number and heading	Description/requirement of section	Implication for the Administering Authority
1 Introduction	The draft guidance has been issued under the relevant powers of the Secretary of State, and Administering Authorities are required to act in accordance with it.	The guidance forms the basis on which the Westminster pension fund will be assessed for compliance with asset pooling.
2 Definitions	This section explains the terms and definitions used in the guidance	
3 Structure and Scale	All Administering Authorities are required to pool their investments through a pool company to deliver benefits of scale and collaboration. As at 31 December 2018, 70% of the pension fund assets have been transferred to a pooling company.	With 70% of assets transferred to a pool company the pension fund is currently compliant with the statutory guidance on asset pooling.
4 Governance	Pool members must establish and maintain a pool governance body responsible for the effective governance of the pool and holding the pool companies to account. Westminster is a shareholder and member of the London CIV pool company and maintain representation on the various committees and governing bodies in London CIV.	The Westminster pension fund governance arrangements are compliant with the requirement of the statutory guidance.

5 Transition of assets to the pool	The guidance requires existing assets to be transferred to the pool as quickly and cost effectively as possible. The guidance allows temporary retention of existing assets in exceptional cases and requires these to be reviewed at least every three years.	Under the guidance the Administering Authority is required to cite exceptional circumstances in instances where existing assets are not pooled.
6 Making new investments outside the pool	The guidance discourages making new investments outside of a pool company. It also requires Administering Authorities to review their 2020 investment strategies (after the 2019 triennial valuation) to make new investments outside the pool only in very limited circumstances not normally exceeding 5% of investment assets which should be reviewed regularly. The guidance also allows pool members to invest in pools other than their own to access specialisations.	The 2019 triennial valuation is currently in progress and will conclude in December 2020 at which point the investment strategy statement will be reviewed.
7 Infrastructure Investment	Pooling will facilitate infrastructure investment.	The Westminster pension fund currently has a allocation target of 5% to Infrastructure, with a transfer of £70m in assets to Pantheon due to take place in early 2019/20.
8 Reporting	Pool members are required to report total investment costs following the *CIPFA guidance on preparing the Annual Report*	The Westminster pension fund will comply with the reporting requirements as outlined in the *CIPFA guidance on preparing the annual report.*

AGENDA ITEM: X

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: MHCLG draft guidance on pooling