



**ACCESS**

Effective • Collective • Investment



The submission from  
**ACCESS**  
(A Collaboration of Central, Eastern & Southern Shires)  
in response to the  
**LGPS: Investment Reform Criteria and Guidance**  
On behalf of



Cambridgeshire County Council



East Sussex County Council



Essex County Council



Hampshire County Council



Isle of Wight Council



Kent County Council



Norfolk County Council



Northamptonshire County Council



Suffolk County Council



West Sussex County Council

## Contents

Pages 7-8	Introduction
Page 9	Progress in meeting the pooling criteria
Page 11	A: Asset pool(s) that achieve benefits of scale
Page 13	B: Strong Governance and Decision Making
Page 15	C: Reduced Costs and Excellent Value for Money
Page 17	D: An Improved Capacity to Invest in Infrastructure
Appendix A	Memorandum of Understanding
Appendix B	Project Plan

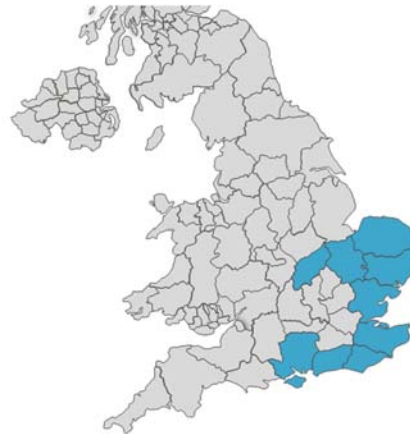
**Please note:** if you have any questions regarding the content of this document please contact either Paul Finbow at [paul.finbow@suffolk.gov.uk](mailto:paul.finbow@suffolk.gov.uk) or Rachel Wood at [rachel.wood@westsussex.gov.uk](mailto:rachel.wood@westsussex.gov.uk).



## Introduction

The ACCESS pool takes this opportunity to present details of its plans and the progress it has made in meeting the Government’s requirements as published in the Department for Communities and Local Government’s *Local government pension scheme: investment reform criteria and guidance* documentation on 25<sup>th</sup> November 2015.

ACCESS (a collaboration of central, eastern and southern shires) has been formed in order to respond to the Government’s investment reform criteria. The map below illustrates the confirmed participants in the ACCESS pool.



The participating authorities reflect a strong commitment to the project and share an approach to achieve common objectives. The ACCESS authorities have set out a clear set of guiding principles, which are summarised below:

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

The ACCESS authorities will create a pool with assets of circa.£30bn which exceeds the Government’s criterion. Historically the authorities have taken a broadly similar approach to investing. For example:

- The average return for the authorities participating in the ACCESS pool exceeded the WM Local Authority Average over the medium term (five years).
- 75% of the pool assets are invested across 12 managers.
- 60% of the pool assets are invested in equities.
- 75% of the pool assets are actively managed.
- All funds have some exposure to passive investment.
- The published 2013 actuarial funding levels for ACCESS authorities show an average of 81%. This compares to a national mean average of 78% for all LGPS’s in England and Wales.

These characteristics illustrate the very solid building blocks on which the pool will be formed. This foundation will assist the ACCESS authorities when working collaboratively during the formative stages of the asset pool. This includes the formulation of final detailed proposals in July 2016, through to the eventual transfer of liquid assets from 2018. This shared approach will stand the ACCESS pool in good stead over subsequent decades and enable participating authorities to execute their fiduciary responsibility to Local Government Pension Scheme (LGPS) stakeholders, as economically as possible whilst achieving optimum investment returns.

The potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise is already clear. Each authority is committed to working together to establish a viable pool and ensuring the permanency and stability of any proposed structure.

Attached are further details of our proposals and we would welcome engagement from Government Officers to discuss matters further.

Signed



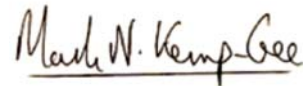
Cambridgeshire County Council



East Sussex County Council



Essex County Council



Hampshire County Council



Isle of Wight Council



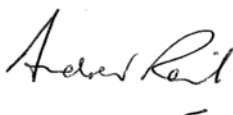
Kent County Council



Norfolk County Council



Northamptonshire County Council



Suffolk County Council



West Sussex County Council

## **Progress in meeting the pooling criteria**

The Government's Investment Reform programme, and the creation of six asset pools, represents a significant project with considerable challenges in terms of size, technical and legal issues and agreeing a sustainable demographic governance model. It is important, therefore, that all aspects of the design and implementation are the outcome of collaborative informed and evidenced consideration by each authority participating in the pool.

The authorities participating in the ACCESS pool made a conscious decision to consider carefully the evidence on the most effective design of pools before detailed work on the ACCESS pool was undertaken. The proposal set out here has been heavily influenced by the work of "Project POOL", in which many of the ACCESS authorities participated. The ACCESS pool is now able to make further progress, confident that their proposal is on a sound basis.

Members of S101 Pension Committees, officers and other interested parties participating in ACCESS have engaged in this process and are committed to establishing a viable pool. All participating authorities have signed up to a Memorandum of Understanding (MoU) which underlines our commitment to investment pooling and the permanency of any proposed structure. It also sets out the basis for engagement, cost sharing and governance. The MoU has been appended to this submission.

ACCESS authorities have a clear project plan in place which sets out how each of the participating authorities will collaborate effectively to come to clear, objective, evidence based decisions. The authorities have commissioned Hymans Robertson to provide project support and have established an Officer Working Group to drive forward the business case for submission in July 2016, and the implementation that will follow. The project plan has been appended to this submission and shows how additional professional support will be sought when required. The participating authorities are comfortable with the progress made to date and are confident that the required work can be completed in advance of the July 2016 submission.

Finally, ACCESS authorities are establishing relationships with the wider LGPS community participating in other pooling groups, where possible, to ensure best practice, national coordination and optimal cost savings are achieved.



## A: Asset pool(s) that achieve benefits of scale

The ACCESS group has created a pool with assets of almost £30bn.

The current pool size may increase in the near future as additional authorities consider their options.

The assets by authority at 31<sup>st</sup> March 2015 are set out below. No single authority dominates the pool, which helps ensure a more collaborative approach to governance.

Authority	£m	Allocation
Cambridgeshire County Council	2,268	7.6%
East Sussex County Council	2,740	9.1%
Essex County Council	4,906	16.4%
Hampshire County Council	5,111	17.1%
Isle of Wight Council	483	1.6%
Kent County Council	4,515	15.1%
Norfolk County Council	2,930	9.8%
Northamptonshire County Council	1,850	6.2%
Suffolk County Council	2,193	7.3%
West Sussex County Council	2,964	9.9%
<b>Total</b>	<b>29,959</b>	<b>100.0%</b>

Whilst the scale criterion has clearly been met it is important to note that there is a significant commonality in investments and associated suppliers:

- 75% of the assets are invested across 12 managers which will potentially allow ‘early wins’ in delivering cost optimisation for participants.
- There are 71 different managers used across the authorities which will also allow for rationalisation to be a targeted and managed process.



## **B: Strong Governance and Decision Making**

The Government's criterion seeks to maintain democratic accountability within pooling arrangements and this is considered crucial to ensuring a successful pool.

ACCESS authorities have a clear set of objectives and principles, set out below, that will drive the decision making process over the next five months and allow participating authorities to help shape the design of the pool.

### Objectives

- 1) Enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.
- 2) Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
- 3) Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision making and control.

In order to achieve these objectives, the ACCESS authorities have established the following guiding principles

### Principles

- The participating authorities will work collaboratively.
- Participating authorities will have an equitable voice in governance.
- Decision making will be objective and evidence based.
- The pool will use professional resources as appropriate.
- The risk management processes will be appropriate to the pool's scale, recognising it as one of the biggest pools of pension assets in the UK.
- The pool will avoid unnecessary complexity.
- The pool will evolve its approach to meet changing needs and objectives.
- The pool will welcome innovation.
- The pool will be established and run economically, applying value for money considerations.
- The pool's costs will be shared equitably.
- The pool is committed to collaboration with other pools where there is potential to maximise benefits.

Work is underway to determine the governance structure for the ACCESS pool, the mechanisms by which each Administering Authority can hold the pools to account and the processes for making decisions.

The governance arrangements for the ACCESS pool will facilitate, in an economically efficient way, authorities' preferences on local decision making within the Government's framework for pools.

The project plan sets out key milestones for the governance work stream to ensure proposals are finalised by July 2016 and can be operational thereafter to support the transition of assets within the Government's timetable.



## **C: Reduced Costs and Excellent Value for Money**

ACCESS authorities have initiated detailed work to accurately quantify the potential savings in investment fees, in the near term and over the next 15 years. These savings will be set out in the July 2016 submission.

ACCESS authorities believe it is critical that current costs and potential for savings are assessed professionally and using consistent methodology across all authorities and all pools, whilst always being mindful of the need to maximise investment return in each asset class. To this end the pool is proposing to use third party benchmarking expertise with experience of global market for pension funds.

The accounting year 2012-2013 will be used as the cost benchmark to take account of savings LGPS authorities have made since then.

ACCESS authorities endorse the estimated annual cost savings published by Project POOL indicating that circa £145-190m per annum could be saved across English and Welsh authorities via pooling arrangements, ten years after pooling has been implemented. This could increase to c£240-320m per annum if future asset growth of 5% per year for ten years is assumed.

As Project POOL noted, actual cost savings could be greater due to:

- competition when pools appoint external managers driving fees down
- additional savings on less visible layers of fees on alternative assets
- greater use of “in-house” management

This should mean that over the very long term, the costs of transition, and establishing and running the pool, will be recouped by savings and other benefits.

However, in the short term, the costs of implementing change are likely to exceed the savings.

Work to establish the savings for authorities participating in the ACCESS pool will begin very shortly as set out in the project plan. As part of its work over the next five months, ACCESS authorities will also assess the potential of its intended investment approach including the potential for active management to provide higher net returns. The work will also examine implementation costs and reporting proposals.

ACCESS authorities recognise the long term potential for cost savings from in house management, and are committed to considering how best to develop, or access, such capability over the longer term.



## D: An Improved Capacity to Invest in Infrastructure

All of the ACCESS authorities invest in real estate assets (including industrial, healthcare, rental housing, retail, office units) and six of the ten authorities have some exposure to more specialist infrastructure (which fits with the Institute of Civil Engineers definition of networks for transport, energy generation and distribution, electronic communications, solid waste management, water distribution and waste water treatment etc).<sup>1</sup> The table below sets out the range of commitment and investment levels by the participating authorities.

	Real Estate	Specialist Infrastructure
Strategic Allocation	From 8% to 12%	From 1% to 6%
Current Investment Allocation/Value	From 5% to 12% £2,999m	From 0% to 3% £381m
Investment Type	Direct Multi-manager Pooled	Direct Fund of Funds

The differential between the strategic allocation and actual investment for specialist infrastructure demonstrates the significant challenge in finding investments which will yield returns large enough, and of appropriate profile, to justify their acquisition. ACCESS authorities are committed to investigating all options for providing the participating authorities with access to the most appropriate infrastructure investments to match their asset allocations, including, if appropriate, working with other LGPS authorities or pools nationally to create a vehicle which will help make appropriate infrastructure investments more accessible to the LGPS at a lower cost. To ensure success, such a vehicle should be designed to meet the specific needs of LGPS investors given the distinctive nature of LGPS pension liabilities and risk appetite. If the vehicle can deliver access to the appropriate type of infrastructure investment ACCESS authorities believe that in the long term there is potential for the ACCESS pool to achieve an asset allocation closer to larger global funds.

Planning to carry out this work has commenced and a fuller response will be provided in July.

<sup>1</sup> <http://researchbriefings.files.parliament.uk/documents/SN06594/SN06594.pdf>



# ACCESS Pool July joint submission - project overview as at February 2016

