

Tel: 020 8213 2739

Our Ref: LGPS Statutory guidance on asset
pooling
Your Ref:

E-Mail: neil.mason@surreycc.gov.uk

Teresa Clay
LGF Reform and Pensions Team
Ministry for Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

21st March 2019

Dear Teresa,

RE: Consultation on the Local Government Pension Scheme statutory guidance on asset pooling

Surrey County Council (Surrey) welcomes the opportunity to respond to the Government's consultation on the Local Government Pension Scheme statutory guidance on asset pooling.

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £4billion and includes nearly 300 employers. Surrey is a partner of the Border to Coast asset pool, along with our other 11 partner funds.

This response represents the considered views of Surrey, but, should be read alongside the response of the Joint Committee of Border to Coast Pension Partnership.

Surrey welcomes the attempt by Government to produce guidance to enable clarity over the understanding of what is meant by pooling and setting out some basic requirements for each of the pools. We believe that the guidance is supportive of how Border to Coast and its constituent

partner funds have approached pooling. However, there are some areas, which we include in this response, which we believe require further clarification.

3. Structure and scale

Paragraph 3.1

Surrey is in agreement with the benefits of scale noted in the guidance. However, an ambition for Surrey is also to improve net of fees investment returns through pooling and we believe this aim should be specifically included as a desirable benefit of pooling.

Paragraph 3.2

We welcome the fact that the guidance makes it clear that the decision to invest through internal or external managed vehicles is an administering authority decision. However, use of internal or external management is presented as a binary choice. In some cases the optimal outcome could be to merge these two management styles into a single hybrid sub-fund. We believe this option should be recognised in the guidance.

Paragraph 3.3

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 3.4

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 3.5

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 3.6

We are pleased to note the confirmation that allocations to active and passive management are strategic asset allocation decisions and rest with Administering Authorities. However, we do not accept the premise in this paragraph that passive management delivers better net of fees long term risk adjusted returns. Evidence was provided to highlight and counter the flaws in the consultant research that supported the views held in some parts of Government that passive management was the way forward for the industry, including the LGPS in the early 2015/16 discussions on pooling.

We also believe that the reference to a period over which the comparison between active and active management is measured is ambiguous.

Please provide clarification on why this clause is needed.

4. Governance

Paragraph 4.1

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 4.2

The statement on holding the pool company to account is welcome and is embedded as part of existing pooling governance arrangements.

Paragraph 4.3

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 4.4

We are supportive of the assertion that Administering Authorities should take a long term view in relation to the costs/benefits of pooling and believe that this should produce scheme wide benefits. However, consistent with Paragraph 4.4 of the consultation, the primary responsibility of the Administering Authorities is to the employers, members and local taxpayers of their own fund.

Paragraph 4.5

We are pleased to note that this reflects our current understanding of and approach to pooling. The Surrey Local Pension Board is engaged with all pool activity.

Paragraph 4.6

We are pleased to note that this reflects our current understanding of and approach to pooling. There exists a non-voting scheme member representative drawn from the Scheme Member representatives on the Local Pension Boards on the Border to Coast Joint Committee.

Paragraph 4.7

We welcome the confirmation that responsibility for deciding on the investment strategy and asset allocation rests with individual pool members (Administering Authorities).

Paragraph 4.8

Whilst not disagreeing with this point it is also important to recognise the differences between each fund and the responsibilities each fund has to its employers, members and local taxpayers.

Therefore, any decisions on what is tactical and what is strategic should be set within sufficiently wide parameters to allow each fund to implement their current and proposed strategic allocations as determined by each fund.

Paragraph 4.9

This reflects our current understanding of and approach to pooling. The question of investment choice versus scale is an ongoing conversation between the partner funds and pools.

Paragraph 4.10

Current arrangements are compliant with the guidance.

Paragraph 4.11

We are pleased to note that this reflects our current understanding of and approach to pooling.

5. Transition of assets to pools

Paragraph 5.1

We broadly agree with the sentiment, however, the priority for funds should be that sub-fund capability is fully assured before assets are transitioned.

Paragraph 5.2

The guidance is correct to the extent that the transitions take place inside an authorised contractual schemes (ACS), but not if it is to take place outside an ACS. In these circumstances it is the fund who remains the legal owner of the assets and therefore responsible for decisions around the transition.

We would like this distinction between transitions inside and outside of an ACS to be made clear in the guidance.

Paragraph 5.3

While the clarification in the guidance is welcome, we believe that these assurances require the support of legal opinion to provide administering authorities with sufficient comfort.

Paragraphs 5.4 & 5.5

The definition of “temporary” is problematic, as this may include classes of assets, such as alternatives. Holding some alternative assets to maturity may well be at least a 10 year period. The ability of pool companies to manage these assets either within pooled structures or simply on behalf of its pool funds will very much dependent on the pooling vehicle proposed and the regulatory permissions in place.

The confirmation that it is appropriate that certain assets can be retained outside of the pool by funds is welcome. As is the specific mention of life insurance contracts for the purpose of passive investment and direct property investments.

Paragraph 5.6

We are pleased to note that this reflects our current understanding of and approach to pooling.

6. Making new investments outside of the pool

Paragraph 6.1

We agree with this sentiment. Funds should consider their investment strategy in alignment with the capacity of the pool company’s capacity to deliver the suitable investment choices.

Paragraph 6.2

Investments in local initiatives will be considered where they are consistent with investment strategy statement of the fund. It should be noted that, at some point it may be possible for such investments to be housed within a pool.

We would seek clarification as to how an aggregate figure of 5% of fund assets was reached.

Paragraph 6.3

We require further clarification regarding this section. The guidance could be read to mean that funds can invest in pools other than that which they are a member of. This suggest the creation of competition between the pools, which runs counter to the Government's original policy intend.

Paragraph 6.4

The confirmation that funds can continue to make new investments outside of the pool, in circumstances where the pool is unable to offer a suitable investment vehicle consistent with strategic asset allocation is welcome.

7. Infrastructure investment

Paragraph 7.1

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 7.2

We welcome the absence of a target and the acceptance of the need for such investments not just to be concentrated in the UK. The allocation to infrastructure in fund portfolios should only be when it is consistent with the investment strategy. We do not believe a specific ambition for investment in this asset class, above others, should be singled out by the Government.

Paragraph 7.3

We are comfortable with the guidance.

Paragraph 7.4

Our treatment of these assets is consistent with the guidance.

Paragraphs 7.5 & 7.6

We are comfortable with the guidance.

8. Reporting

Administering Authorities are required to report in line with the CIPFA Guidance on Preparing the Annual Report, the only issue being that this publication is not due to be published until April 2019 when most Funds will already have closed their books and be well on their way to finalising their accounts. Whilst per the regulations the Annual Report does not need to be finalised until December the audit cannot be signed off without it, which means in reality it has to be available in June. Simply put the guidance is too late for application in this reporting period

Paragraph 8.1

We are comfortable with the guidance.

Paragraphs 8.2, 8.3 & 8.4

Paragraph 8.1 requires pool members to follow the CIPFA guidance. Clauses 8.2, 8.3 and 8.4 are therefore unnecessarily prescriptive. We would ask that they be removed.

Paragraph 8.5

We are pleased to note that this reflects our current understanding of and approach to pooling.

Paragraph 8.6

This requirement is supported, on the basis that additional requests for information are reasonable and proportionate.

Paragraph 8.7

We welcome the commitment to the SAB code of cost transparency.

Paragraph 8.8

The SAB report will be published after the pension fund annual reports, and the pool annual report. We believe it is therefore for the SAB to ensure consistency.

Paragraph 8.9

We are comfortable with the guidance. However, should there be an issue of non-compliance there will be a reason for it. The issue and the reason would be reported. This effectively introduces a “comply or explain” requirement. It is therefore suggested that this is made more explicit.

As mentioned we are broadly supportive of the Government’s attempt to produce guidance to enable clarity over the understanding of what is meant by pooling. We are pleased to note that, in the main, the guidance as currently written is consistent with the Surrey and Border to Coast approach to pooling.

Yours sincerely



Leigh Whitehouse
Executive Director of Finance