SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **7 JUNE 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **MINISTRY OF HOUSING, COMMUNITIES & LOCAL GOVERNMENT (MHCLG) – STATUTORY GUIDANCE ON ASSET POOLING**

SUMMARY OF ISSUE:

The Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) consultation on proposed changes to the current statutory investment pooling guidance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the report and annexes.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee will be made aware of all national initiatives with a consultation process with a response sent within stated deadlines, in accordance with the Business Plan.

BACKGROUND:

1. On 2 January 2019, the Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) issued a limited circulation consultation on proposed changes to the current statutory investment pooling guidance (attached as Annex 1).

2. The statutory guidance and the proposed changes to it apply to Local Government Pension Scheme (LGPS) Administering Authorities and direct how they are required to invest their assets.

3. A joint response to the consultation was agreed by the Border to Coast Joint Committee at its meeting of 11 March 2019 and was issued on 27 March 2019 (it is included as Annex 2).

4. An individual response on behalf of Surrey County Council, from Leigh Whitehouse, Executive Director of Finance, was issued to MHCLG on 21 March 2019, after consultation with Cllr Tim Evans, Chairman of the Surrey Pension Fund Committee (included as Annex 3).

DETAILS:

5. The reform of investment management in LGPS for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities (including our Partner Funds) responded by coming together in groups of their own choosing to form eight asset pools, one of which was Border to Coast Pensions Partnership.

6. The stated intention of the latest draft guidance is to clarify several matters raised by Administering Authorities and others) that have come to light through the implementation to date, and further clarify what MHCLG expects in terms of future progress in the next stage of pooling and reporting / monitoring of associated costs and savings in meeting these obligations.

7. Once finalised this will replace all matters in the current guidance at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 LGPS Investment Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015. As such it will become part of the LGPS regulations and Administering Authorities will have to either follow the guidance or explain and account for any instances where they have not followed it.

8. One significant change of approach from MHCLG evident in the draft guidance is the move to impose a more consistent approach to investment pooling across the LGPS. Comments from Government in previous years had supported an environment where each LGPS Pool and its constituent funds had scope to determine what structure it would use to meet the Government's pooling criteria, provided those criteria were achieved.

9. The draft guidance marks a change of tone and imposes a more uniform approach to the way LGPS investment pooling should operate. This includes requiring each Pool to include a Pool company (or companies) to implement investment strategies, and mandating that these Pool companies are regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities.

10. While this is not a specific concern for the Surrey Fund, and in fact effectively endorses the approach we have taken to investment pooling, it demonstrates a move away from allowing different versions of pooling to co-exist and towards further central control over the approach to investments in the LGPS.

CONSULTATION:

11. The Chairman of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

12. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

13. Financial and value for money implications are discussed within the report.

SECTION 151 OFFICER COMMENTARY:

14. The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER:

15. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

16. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS:

17. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT:

18. The following next steps are planned:

    - Provide the Pension Fund Committee with details of the results of the consultation.

Contact Officer:
Neil Mason, Strategic Finance Manager (Pensions)

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1 – MHCLG Draft Pooling Guidance
Annex 2 – Border to Coast JC response to the Draft Pooling Guidance
Annex 3 – Surrey County Council response to the Draft Pooling Guidance

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