



## AGENDA

### ACCESS JOINT COMMITTEE

**Monday, 31st July, 2017, at 11.00 am**

Ask for: **John Lynch**

**Camden Town Hall, Judd Street, Kings Cross,  
WC1H 9JE**

Telephone **03000 416647 -  
john.lynch@kent.gov.uk**

*Tea/Coffee will be available 30 minutes before the start of the meeting in the meeting room*

#### **Membership**

**Cllr Adrian Axford** (Isle of Wight), **Cllr Susan Barker** (Essex CC), **Cllr Roger Hickford** (LGSS – Cambridgeshire), **Mr Jeremy Hunt** (West Sussex CC), **Cllr Cliff Jordan** (Norfolk CC), **Cllr Mark Kemp-Gee** (Hampshire CC), **Cllr Graham Lawman** (LGSS – Northhamptonshire), **Cllr Andrew Reid** (Suffolk CC), **Mr Charlie Simkins** (Kent CC) **Cllr Richard Stogdon** (East Sussex CC), **Cllr David Williams** (Hertfordshire)

#### **UNRESTRICTED ITEMS**

*(During these items the meeting is likely to be open to the public)*

1. Election of Chairman (Pages 3 - 4)  
To elect a Chairman of the Joint Committee until the first meeting after 31 July 2019

2. Election of Vice-Chairman  
To elect a Vice-Chairman of the Joint Committee until the first meeting after 31 July 2019

3. Apologies/Substitutes

Apologies	Substitutes	LA
Cllr Susan Baker	Cllr Stephen Canning	Essex
Cllr Andrew Reid	Cllr Alexander Nicoll	Suffolk
Mr Jeremy Hunt	Dr James Walsh	West Sussex

4. Declaration of interests in items on the agenda

5. Governance (Pages 5 - 6)

6. ACCESS Pooling

(Pages 7 - 38)

**1.00pm - LUNCH**

**Motion to Exclude the Press and Public**

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

**EXEMPT ITEMS**

7. Operator Procurement

(Pages 39 - 54)

8. Client Role

(Pages 55 - 60)

9. Risks

(Pages 61 - 66)

10. Date of next meeting

John Lynch  
Clerk to the Joint Committee  
03000 416647

**Friday, 21 July 2017**



## **Appointment process for the Chairman of the Joint Committee**

## **Before the Meeting**

The first item of business, after introduction and objectives, on the agenda should be election of Chairman to serve until the second annual meeting after appointment.

## **At the meeting**

The Chairman and the Vice-Chairman of the Joint Committee will be elected at the start of the meeting.

The first item on the agenda will be the election of the Chairman with the second being the election of the Vice-Chairman.

If the Chairman is not going to be present at that meeting then the Vice-Chairman will take the Chair for the meeting. If neither are present then a temporary Chairman will be elected for the meeting.

No one can be elected Chairman unless they have got a majority of the votes of those present and voting.

## **Appointment Process**

The Clerk to the Joint Committee will open the meeting and call for nominations for Chairman. Nominations must be proposed and seconded by a member of the Committee (or their substitute).

If there is only one nominee then there should be a vote to elect that person as Chairman.

If there are two nominees then you take for votes for each nominee (each member of the committee has one vote – they cannot vote for both nominees). If one nominee gets a majority of votes of those present and voting then they are elected as Chairman.

If there are more than two nominees you should take votes for each nominee (again each member can only vote for one candidate). If one gets a majority of those present and voting then they are elected as Chairman. If not then the one with the lowest number of votes is eliminated and the Committee votes again (again, everyone has one vote), until one nominee gets a majority of those present and voting.

The newly elected Chairman then takes the Chair and they proceed on to election of the Vice-Chairman. This will follow the same process as above.

## **Future appointments**

In two years' time the Clerk will oversee the appointment of the new Chairman.

## SCHEDULE 2

### Terms of Reference of the Joint Committee

#### Part 1 Functions in relation to the Operator

1. **Specifying Operator services:** Deciding, in consultation with the Councils, the specification of services and functions that the Operator will be required to deliver including the sub-funds and classes of investments required to enable each Council to execute its investment strategy.
2. **Procuring the Operator:** agreeing the method and process for the procurement and selection of the Operator.
3. **Appointing the Operator:** Making a recommendation to the Councils as to the identity of the Operator and the terms upon which the Operator is to be appointed.
4. **Reviewing the Performance of the Operator:** Keeping the performance of the Operator under constant review and making arrangements to ensure that the Joint Committee is provided with regular and sufficient reports from the Officer Working Group to enable it to do so including but not limited to:
  - 4.1 the performance of the Operator against its contractual requirements and any other performance measures such as any Service Level Agreement (SLA) and key performance indicators (KPIs) and Officer Working Group recommendations on any remedial action;
  - 4.2 sub-fund investment performance;
  - 4.3 investment and operational costs including the annual review of investment manager costs;
  - 4.4 performance against the strategic business plan agreed by the Councils.
5. **Managing the Operator:** The Joint Committee shall:
  - 5.1 Make recommendations to the Councils on the termination or extension of the Operator Contract and
  - 5.2 Make decisions about any other action to be taken to manage the Operator Contract including the giving of any instruction or the making of any recommendation to the Operator including but not restricted to recommendations on investment managers (within any regulatory constraints that may apply).
6. **Appointment of Advisers**
  - 6.1 The Joint Committee may appoint such professional advisers on such terms as it thinks fit. Any procurement of advisers must comply with the constitution of the Authority designated to undertake the procurement and that Authority will enter into a contract with the appointed adviser on behalf of the Authorities.
  - 6.2 The Joint Committee shall decide which tasks shall be performed by the Client Unit and which Council shall manage the Client Unit including the employment arrangements for employees in the Client Unit.

#### Part 2 Functions in relation to management of Pool Assets

7. The Joint Committee shall make recommendations to the Councils on the strategic plan for transition of assets that are to become Pool Assets.

**Part 3 Functions Concerning Pool Aligned Assets**

8. Making recommendations to the Councils about Pool Aligned Assets (including proposals concerning the migration of investments-such as passive investments via life fund policies-to become Pool Aligned Assets) in accordance with this Agreement or any other delegation to the Joint Committee by the Councils.

**Part 4 Functions concerning Business Planning and Budget**

1. Make recommendations to the Councils about the annual strategic business plan for the Pool
2. Determine the budget necessary to implement that plan and meet the expenses of undertaking the Specified Functions (insofar as they will not be met by individual transaction costs paid by Councils to the Operator) in accordance with Schedule 5 hereof.
3. Keep the structures created by this Agreement under review from time to time and make recommendations to the Councils about:
  - 3.1 the future of the Pool;
  - 3.2 any changes to this Agreement; and
  - 3.3 as to the respective merits of continuing to procure operator services by means of a third party or by creation of an operator owned by the Councils.
4. The Joint Committee is required to commence the first review of this Agreement by the second anniversary of its first meeting.
5. The Joint Committee is required to undertake a review of the Pool and this Agreement:
  - 5.1 to be completed 18 months before the expiry of each and every Operator Contract including as a result of the exercise of any option to terminate the Operator Contract;

whenever a Council gives notice of withdrawal under clause 12 of this agreement



# **LGPS Pooling Presentation**

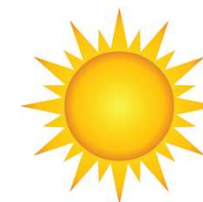
## **31<sup>st</sup> July 2017**

# What we will cover

- What is investment pooling?
- Why are we having to do it?
- What is the ACCESS investment pool?
- How will it affect Administering Authorities?
- What happens next?



# 2015 Summer budget



2015

Local Government Pension Scheme pooled investments  
“The government will work with Local Government Pension Scheme administering authorities to ensure that they **pool investments to significantly reduce costs, while maintaining overall investment performance.**

The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings.

A **consultation** to be published later this year will set out those detailed criteria as well as **backstop legislation** which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments”.



# 2015 Autumn Statement



*“up to 6 British Wealth Funds ...  
at least £25 billion of Scheme assets each”*

*“reduce costs while maintaining overall investment  
performance”*

*“wider ambition of matching the infrastructure  
investment levels of the top global pension funds”*

# 2015 Autumn Statement

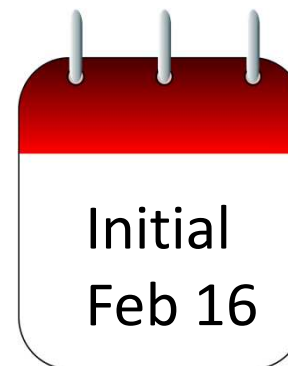


## Criteria

- Scale
- Fee savings
- Governance
- Infrastructure

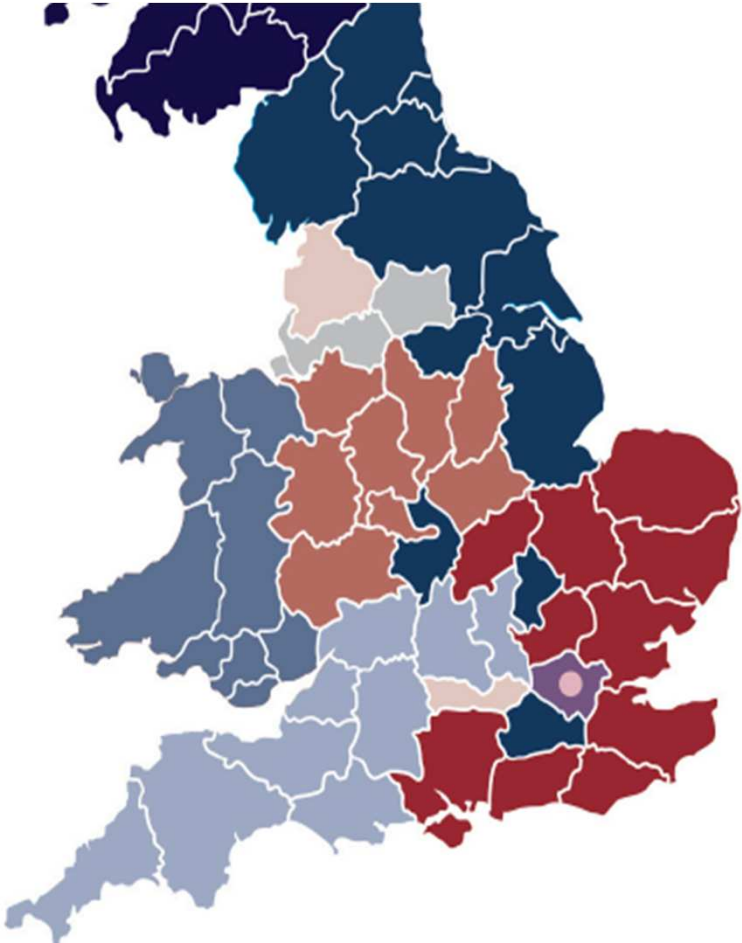


## Pooling proposals to government



# LGPS Pooling profile

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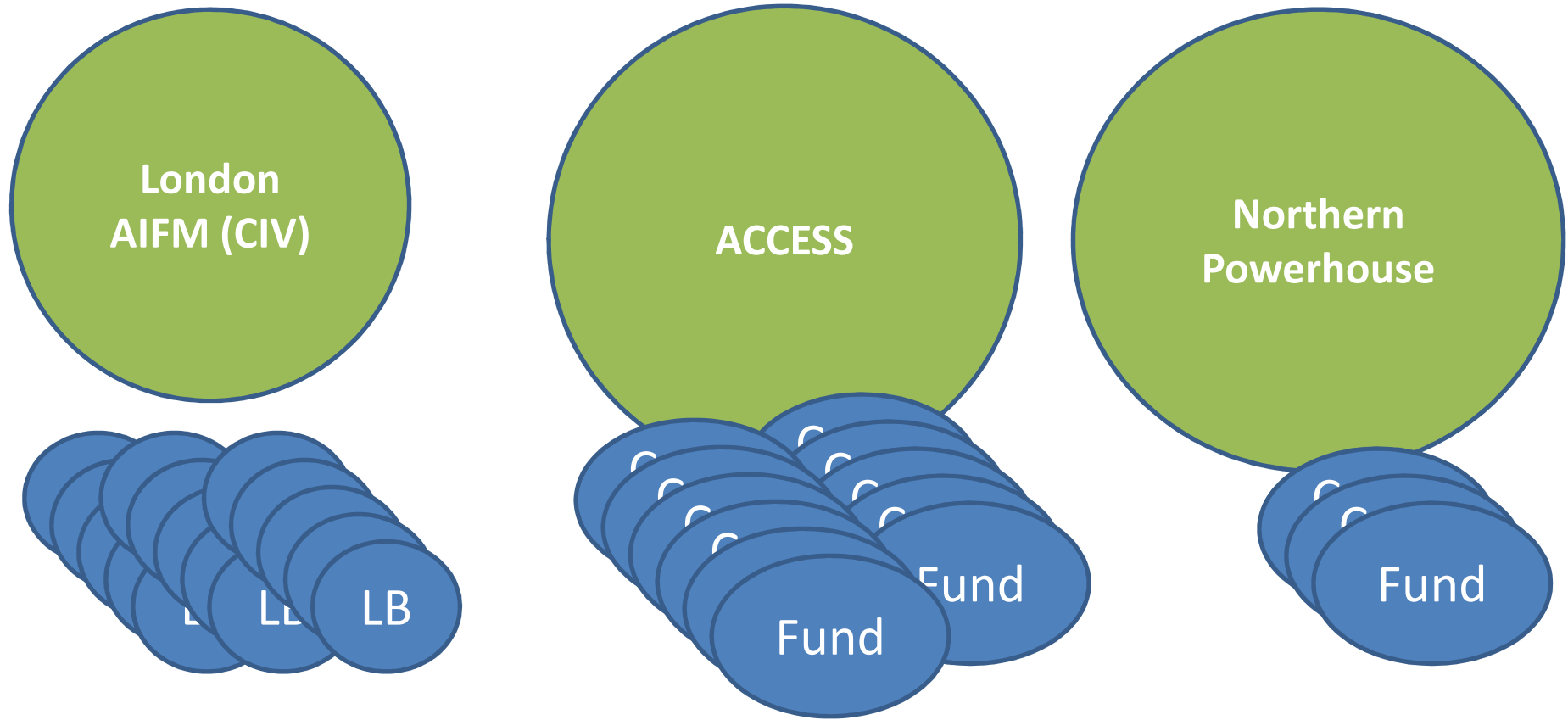
- Access
- Central
- Border to Coast
- Welsh CIV
- Brunel
- London CIV
- Northern Pool
- Local Pensions Partnership



# 8 pools approved

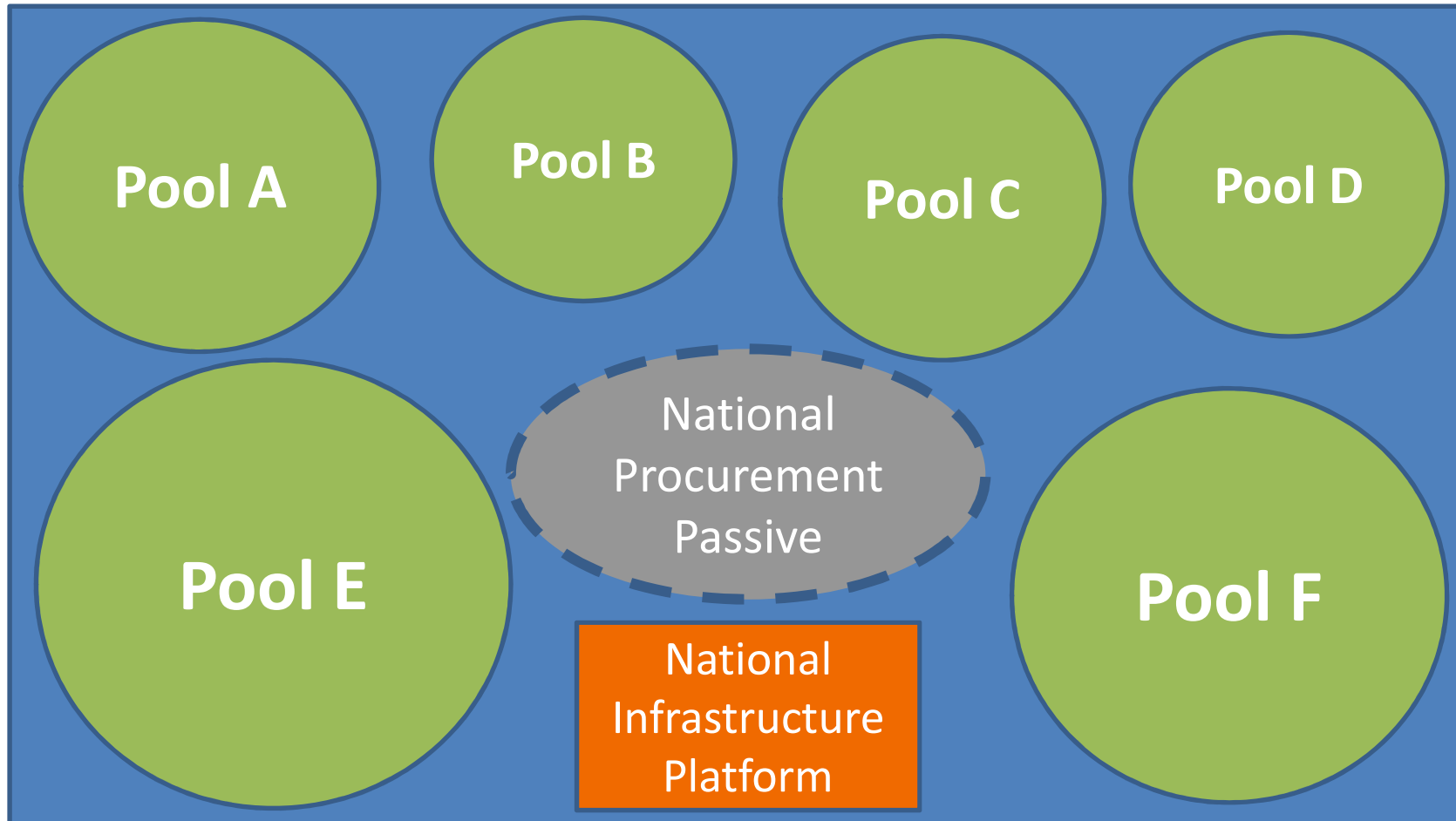
<b>Pool</b>	<b>Current est size</b>	<b>In-house mgt team</b>
<b>London CIV</b>	£24bn+	No
<b>Northern Powerhouse</b>	£35bn+	Yes
<b>Central</b>	£36bn+	Yes
<b>ACCESS</b>	£29bn+	No
<b>Brunel (South West)</b>	£24bn+	No
<b>Borders to Coast</b>	£34bn+	Yes
<b>Wales</b>	£15bn+	No
<b>LPP</b>	£12bn+	Yes

# What is investment pooling?



Each LGPS fund remains separate. Retain responsibility for asset allocation decisions, local liabilities, contribution setting, administration. Scale benefits: lower investment manager fees across the LGPS.

# Multi-Asset Pools (MAPs)



MAPs plus small number of vehicles for asset types accessed more efficiently by LGPS wide collaboration & scale. Those vehicles accessible to all pools.



2016



Essex County Council



Hampshire  
County Council



ACCESS (a collaboration of central, eastern and southern shires) with assets of £34bn – **all of which are managed by third parties.**

c3,000 employers

c900,000 members

Strong performing funds and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise.

75% of the assets are invested across 12 managers and 71 different managers used across the authorities.





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

# Collective Investment Vehicle



2016

## Individual Funds

Fund 1

Fund 2

Fund 3

## Pool

Pool Joint Governance committee (Cllrs)

Operator

Pooled vehicle(s)

Assets

Assets

Assets

## Service providers

Fund Administrator

Depository & Custodian

Audit, tax, legal

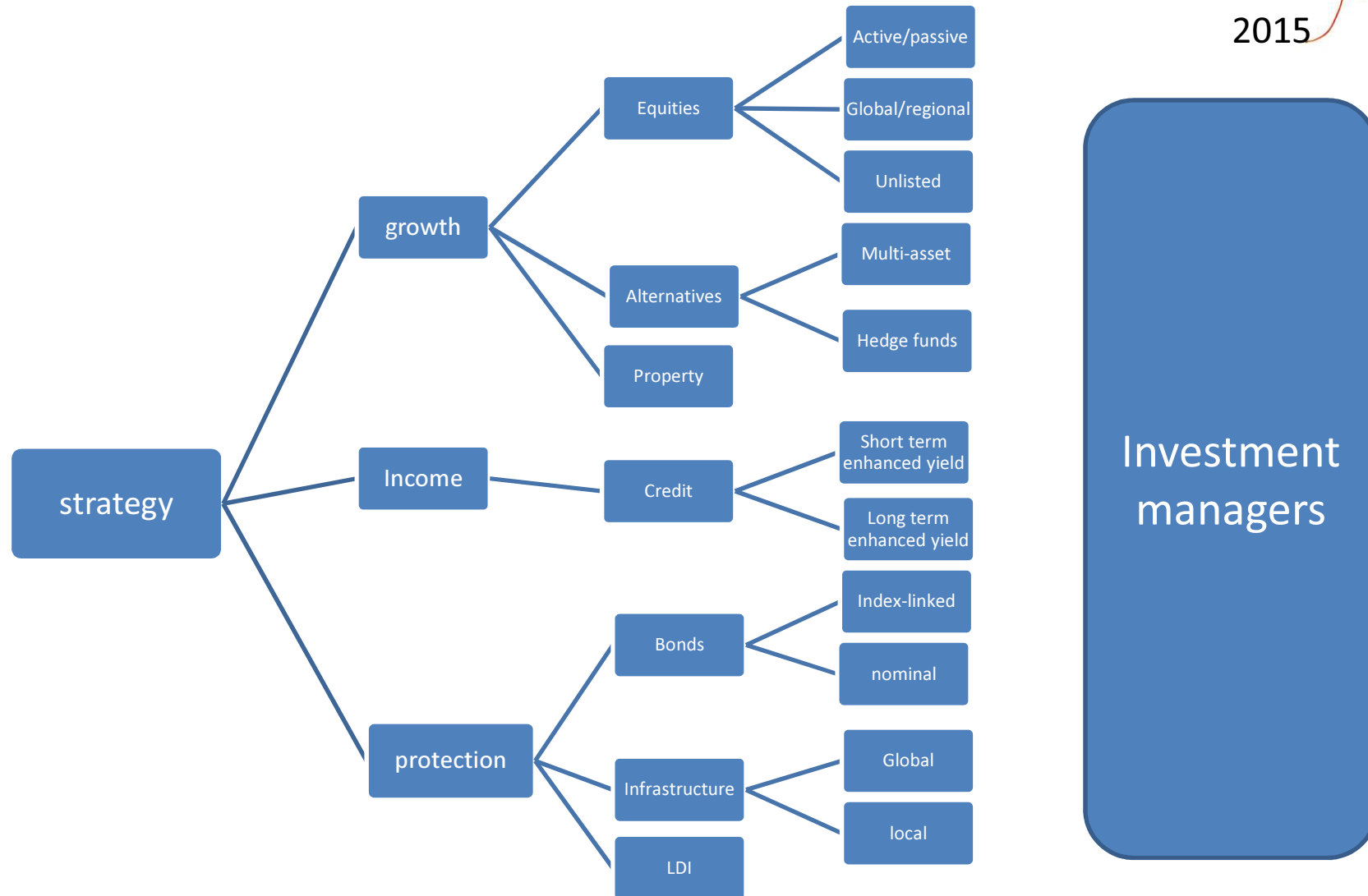
Managers (internal/external)

Individual funds remain beneficial owners of assets

# Governance and decision making



2015

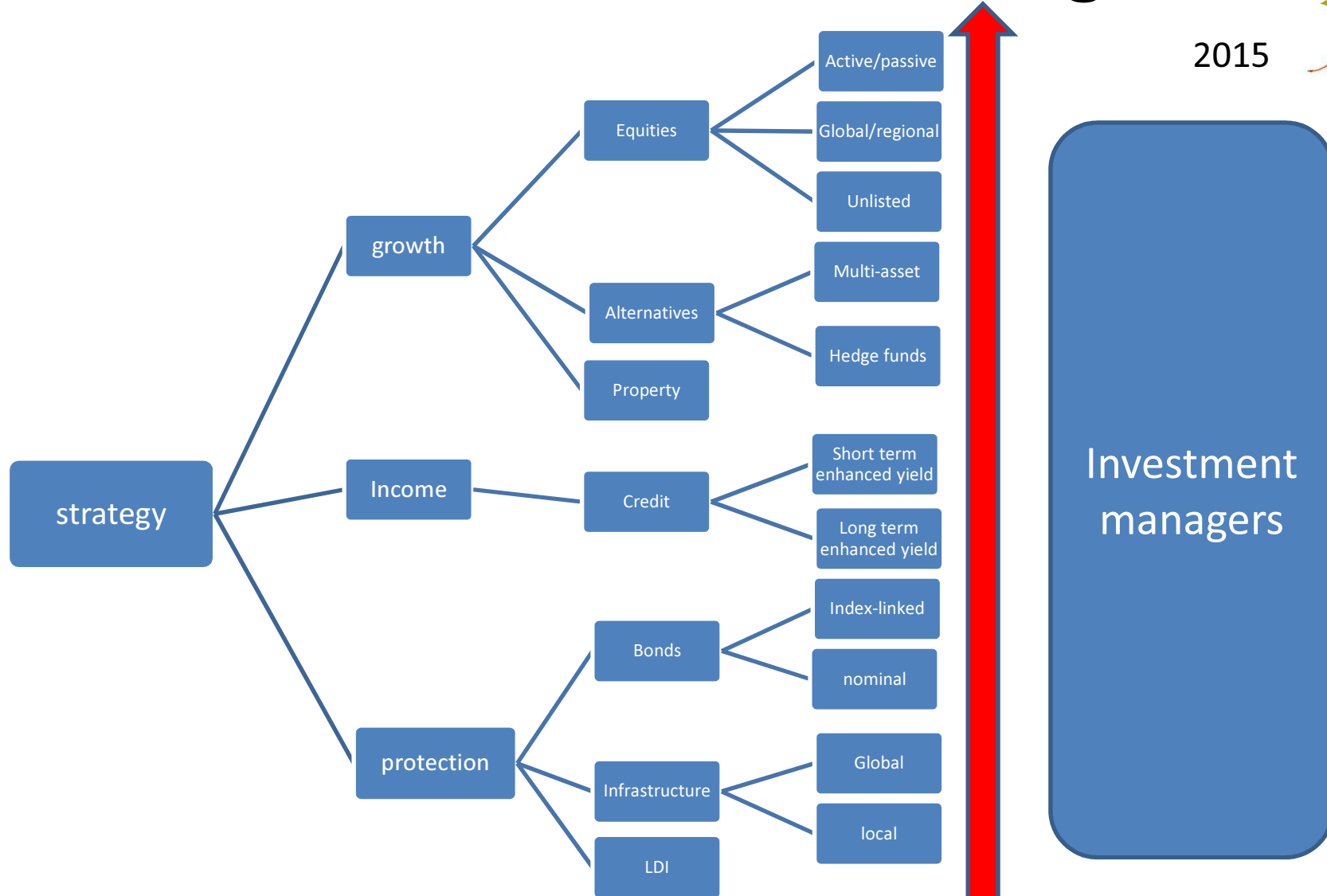


Currently all of these decisions are made by you

# Where does local decision-making end?



2015



You will still make these decisions locally

Decided at pool level

# Pooling: who makes decisions

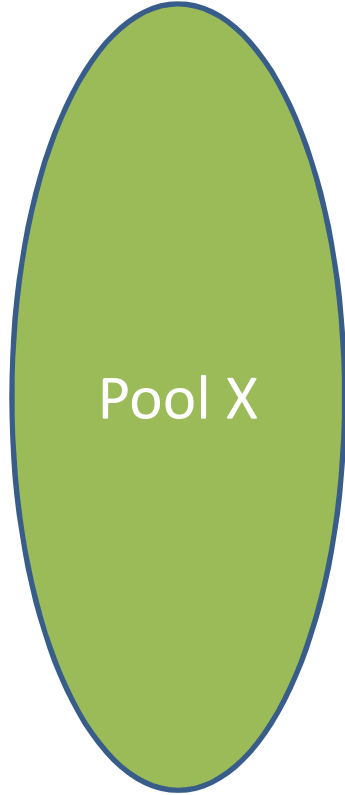
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County  
A

County  
B

County  
C

FUND	Active equities	Passive equities	Bonds	Property	Other	Total
A	60	0	20	10	10	100
B	30	40	20	10	0	100
C	0	60	25	10	5	100



Each separate fund in the same asset pool makes asset allocation decisions locally



2016

# Governance & decision making

<b>Pension Fund Committees</b>	<ul style="list-style-type: none"><li>• Set asset allocation</li><li>• Contractual rights through sponsorship or shareholder agreement with operator</li><li>• Hold pool to account via representation on Joint Governance Committee</li><li>• Receive quarterly reports on operator and pool investment performance</li></ul>
<b>Joint Committee (Elected Members)</b>	<ul style="list-style-type: none"><li>• One representative from each participating fund</li><li>• Responsible for ensuring the pooling arrangements deliver value for money</li><li>• Responsible for the appointment and termination of the Operator</li><li>• Ensures that pool meets the needs of individual funds e.g. decisions on sub-funds the operator will be required to provide to support individual fund strategies</li><li>• Set pool level policies e.g. sharing of costs</li><li>• Receive quarterly reports on Operator performance against agreed KPIs</li><li>• Receive quarterly reports on investment performance</li></ul>

# Governance & decision making (contd)



2016

## Operating Group (Officers)

- One officer representative from each participating fund
- Monitor performance of investment portfolios, Operator and 3<sup>rd</sup> party contractors
- Provides information and advice to the Elected Member Joint Governance Committee on value for money of operations

## Client Function

“Intelligent client” of the Operator

Core responsibilities:

- Technical investment advice to Operating Group and Joint Committee
- Secretarial support to the Operating Group and Joint Committee
- Contract management with CIS Operator
- Day to day facilitation and liaison, negotiation
- Interpretation
- Benchmarking costs/VFM

# Governance & decision making (contd)



2016

## CIS Operator

Responsible for:

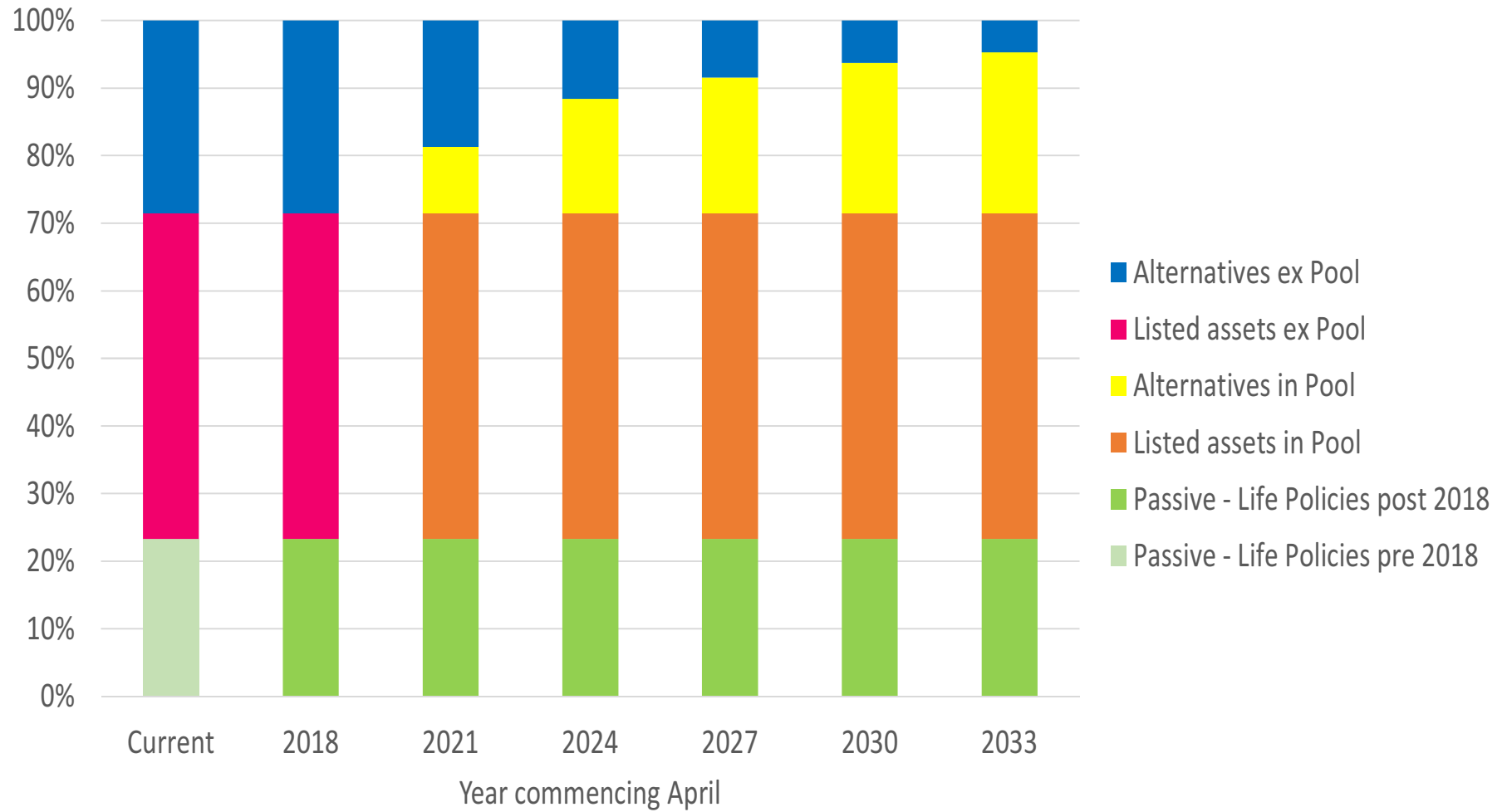
- Legal and regulatory responsibility for selecting & contracting with investment managers via fully compliant procurement. (Consult with officers and Chairmen / JGC as investors.)
- Establishing and operating pooling vehicles e.g. ACS
- Responsible for due diligence on 3<sup>rd</sup> party suppliers (eg investment managers), compliance & risk management, sourcing tax and legal advice as appropriate, reporting performance to ACCESS funds, regulatory compliance
- Administration of underlying investments including dealing, valuations, determination of unit price, portfolio accounting, record keeping & client reporting



# Timeline to 2033



2016

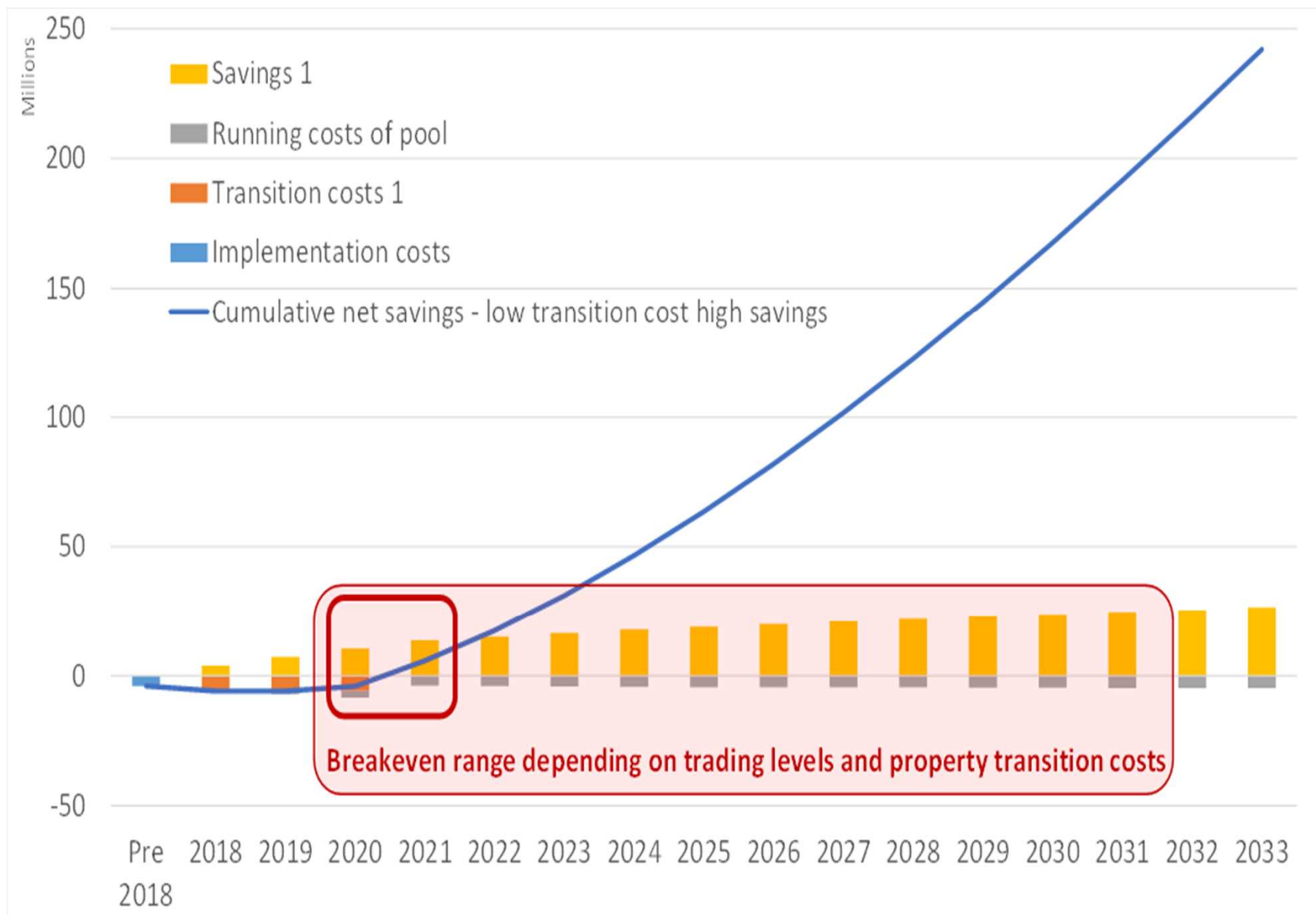


Note: Some investments remain outside the pool e.g. direct investment in property.

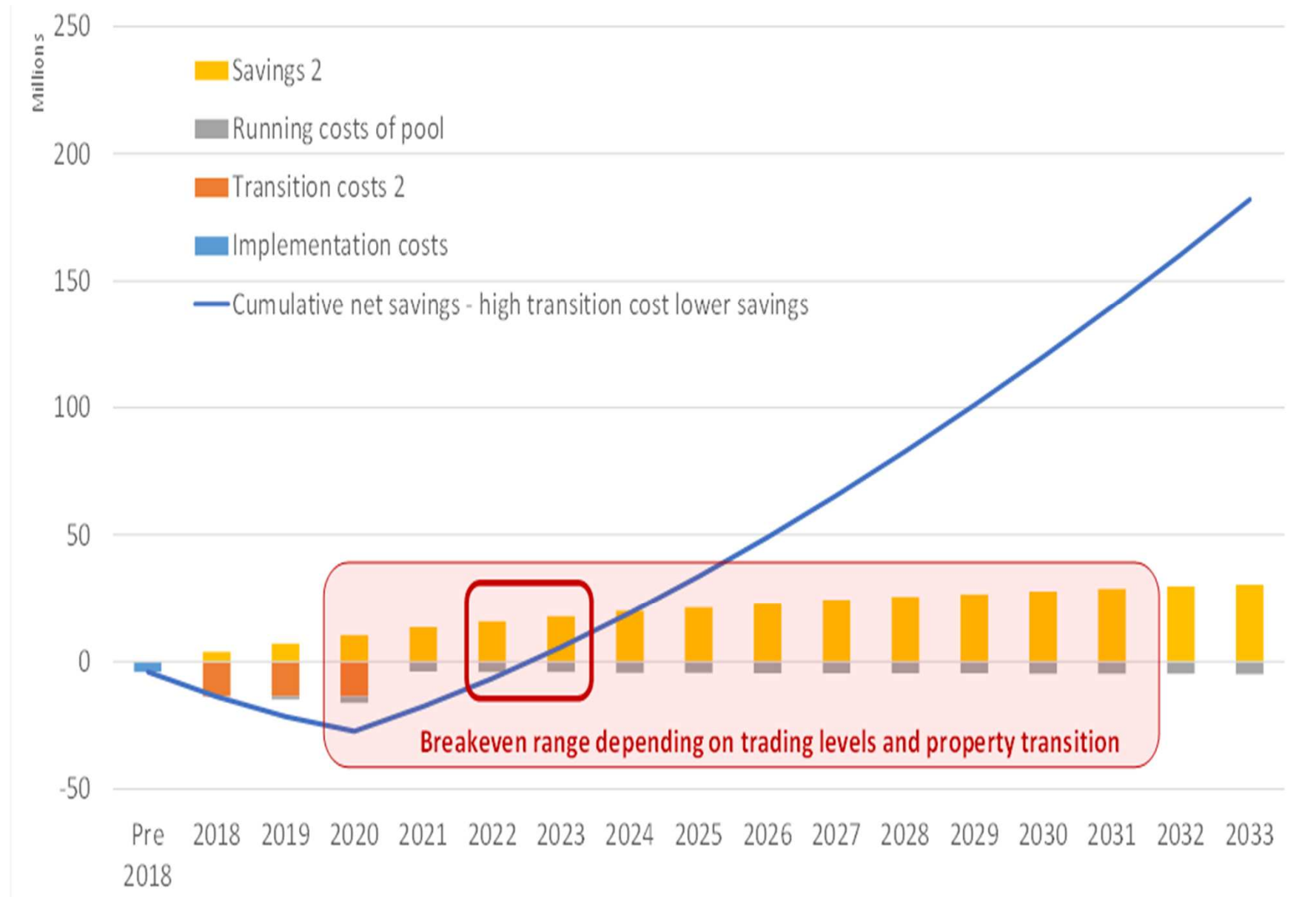


Cost	Type	£	Occurrence
Implementation costs (rent CIV)	One off	£1m - £2m	2017-2018
Transition costs (excl.market impact)	One off	£17m - £41m	2018-2021
Running costs	Ongoing	£3m - £5m	2018 +
Savings	Type	£	Occurrence
Investment Fee savings	Early years	£13m	2021
Investment Fee savings	In 15 years	£26m - £30m	2033

# Time to break even



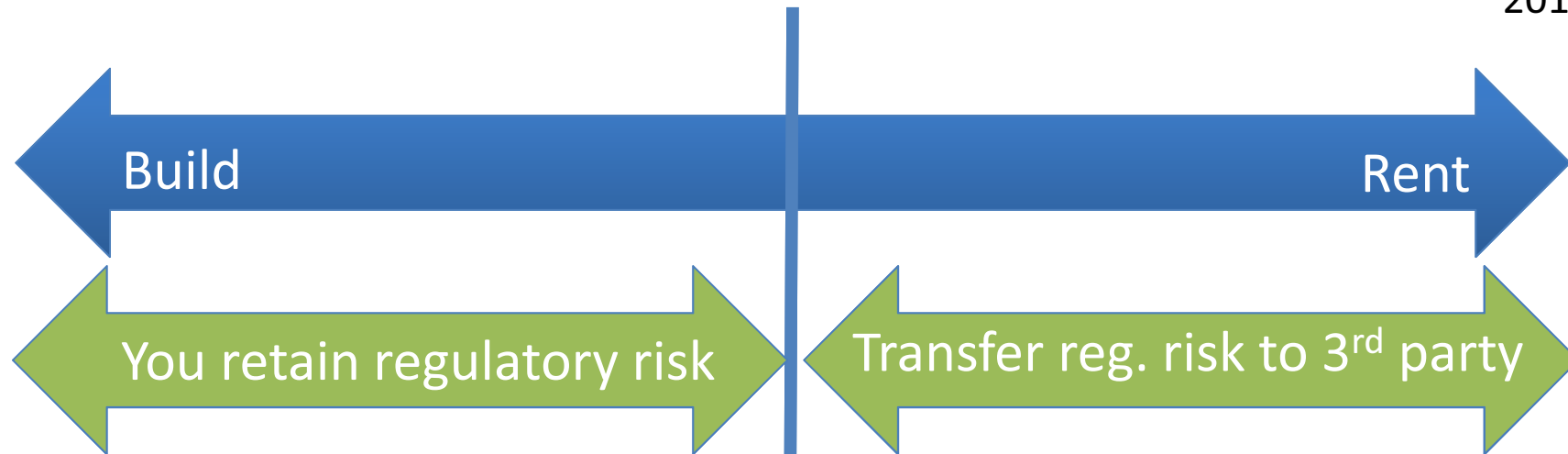
# Time to break even (pessimistic)



# Build v Rent Pool Operator

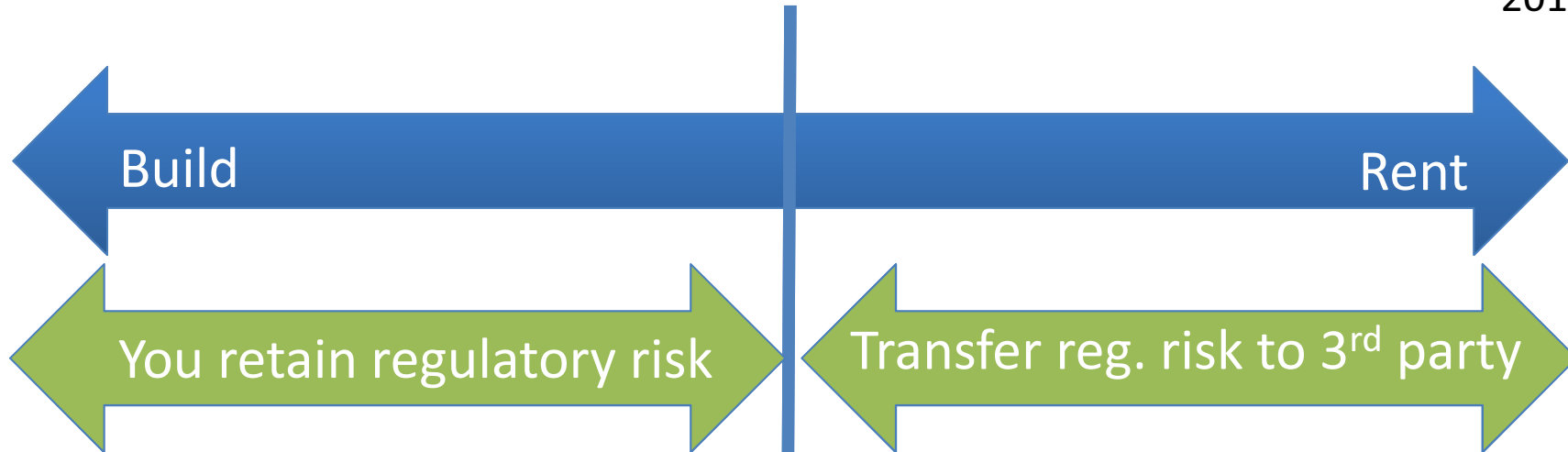


2016



Build max	Build "light"	Rent "light"	Rent max
No outsource apart from depositary/custody. Manage some or all money with "in-house" team.	Minimum staff on payroll. Outsource as much as possible. Use external investment managers.	Operator consults on investment manager selection. Funds retain investment strategy decisions.	Administering authorities have a hands off role. Manager choices & asset allocation fully delegated to Operator

# Decision: rent initially



Build max	Build "light"	Rent "light"	Rent max
No outsource apart from depositary/custody. Manage some or all money with "in-house" team.	Minimum staff on payroll. Outsource as much as possible. Use external investment managers.	Operator consults on investment manager picks. Funds retain investment strategy decisions.	Administering authorities have a hands off role. Manager choices & asset allocation fully delegated to Operator





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



## Rent CIV

- Progress Operator Procurement
- Progress Legal Procurement
- Draft IAA

## Collaborative Joint Procurement

- Fund correspondence
- November: meeting with Minister
- December: Business case to Minister



# 27 January: Minister's letter to ACCESS



2017

Para 4

I consider that the joint procurement proposal will not deliver the Government's objectives as set out above, although I recognise that it would have lower implementation and running costs.

Some reductions in investment fees have already been achieved as the result of our drive to establish pooling in the LGPS...However, to deliver and maintain the substantial savings I expect over the long term, large asset pools are required with effective delegation of manager selection."



# 23 February: ACCESS letter to minister



2017

“...Although we are disappointed in your decision, we will therefore proceed with...pooling as you have directed, following the approach set out in our July 2016 submission using a rented model....

...given the significant tax payer expenditure required to implement govt policy in the way you have directed, it is essential that there is a **clear and accurate record of the rationale for the government’s decision...**

...for the avoidance of doubt, it is important that you provide a clear statement as to what government pooling policy now requires.”



2017

## 22 March: Minister's letter

Para 2

*“The guidance and criteria for pooling did not mandate a Financial Conduct Authority (FCA) authorised pool operator and collective investment vehicle, but as a minimum I expect to see a single entity at the heart of the pool, appropriately regulated by the FCA.*

*The precise regulatory position and tax treatment will be for the FCA and HMRC to decide. However, **establishing a well-known existing structure such as an FCA regulated operator and collective investment vehicle** minimises regulatory and tax risks and **provides the greatest assurance to authorities, scheme members and local taxpayers**”.*



# 22 March: Minister's letter



2017

Para 4

*“ I consider that your alternative proposal will not deliver the Government’s objectives, as set out above, although I recognise that it would have lower implementation and running costs.*

*...I therefore cannot accept your alternative proposal. I **expect you to proceed as set out in your final proposal submitted in July [2016], based on an FCA authorised collective investment vehicle”.***



# Current Timetable

	Governance	Passive Work-stream	Procurement Work-stream	Sub-fund design*
July 2017	<ul style="list-style-type: none"> <li>IAA signed/sealed by all authorities</li> <li>First formal Joint Committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>Evaluation concludes and supplier appointed to framework</li> </ul>	<ul style="list-style-type: none"> <li>First draft of ITT documents completed</li> <li>Individual authorities review ITT documents</li> </ul>	<ul style="list-style-type: none"> <li>Tender for and appoint advisor</li> <li>Data gathering and analysis</li> </ul>
Aug 2017	<ul style="list-style-type: none"> <li>Ongoing work on role definition for "client team"</li> </ul>		<ul style="list-style-type: none"> <li>Update ITT documents in response to review</li> <li>ITT finalised &amp; signed off</li> </ul>	<ul style="list-style-type: none"> <li>Report received</li> <li>Reviewed by officers</li> </ul>
Sept 2017	<ul style="list-style-type: none"> <li>Agree "client team" proposal</li> <li>Appoint JC Chairman</li> <li>First formal Joint Committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>Outcome ratified by Joint Committee and individual authorities</li> <li>Passive framework contract awarded</li> </ul>	<ul style="list-style-type: none"> <li>Issue OJEU notice &amp; ITT</li> </ul>	<ul style="list-style-type: none"> <li>Report findings shared with bidders as part of tender process</li> </ul>
Oct 2017			<ul style="list-style-type: none"> <li>Deadline for ITT responses</li> <li>Evaluation commences</li> </ul>	
Nov 2017			<ul style="list-style-type: none"> <li>Evaluation concludes</li> <li>Individual authorities agree to sign operator agreement</li> </ul>	
Dec 2017	<ul style="list-style-type: none"> <li>Client team appointed and operational when contract is awarded</li> </ul>		<ul style="list-style-type: none"> <li>Notification of award, pre-award meeting &amp; contract signed</li> </ul>	
Jan 2018		<ul style="list-style-type: none"> <li>Individual authorities to commit to framework by March 2018</li> <li>£10bn expected to be under pool governance by March 2018</li> </ul>	<ul style="list-style-type: none"> <li>Application to FCA for ACS &amp; initial sub-funds</li> </ul>	

\*It has been decided to carry out this analysis before the ITT is issued to give greater clarity to bidders on number and type of sub-funds to be established and supported

# Any questions ?



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Agenda Item 7

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By virtue of paragraph(s) 5 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
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