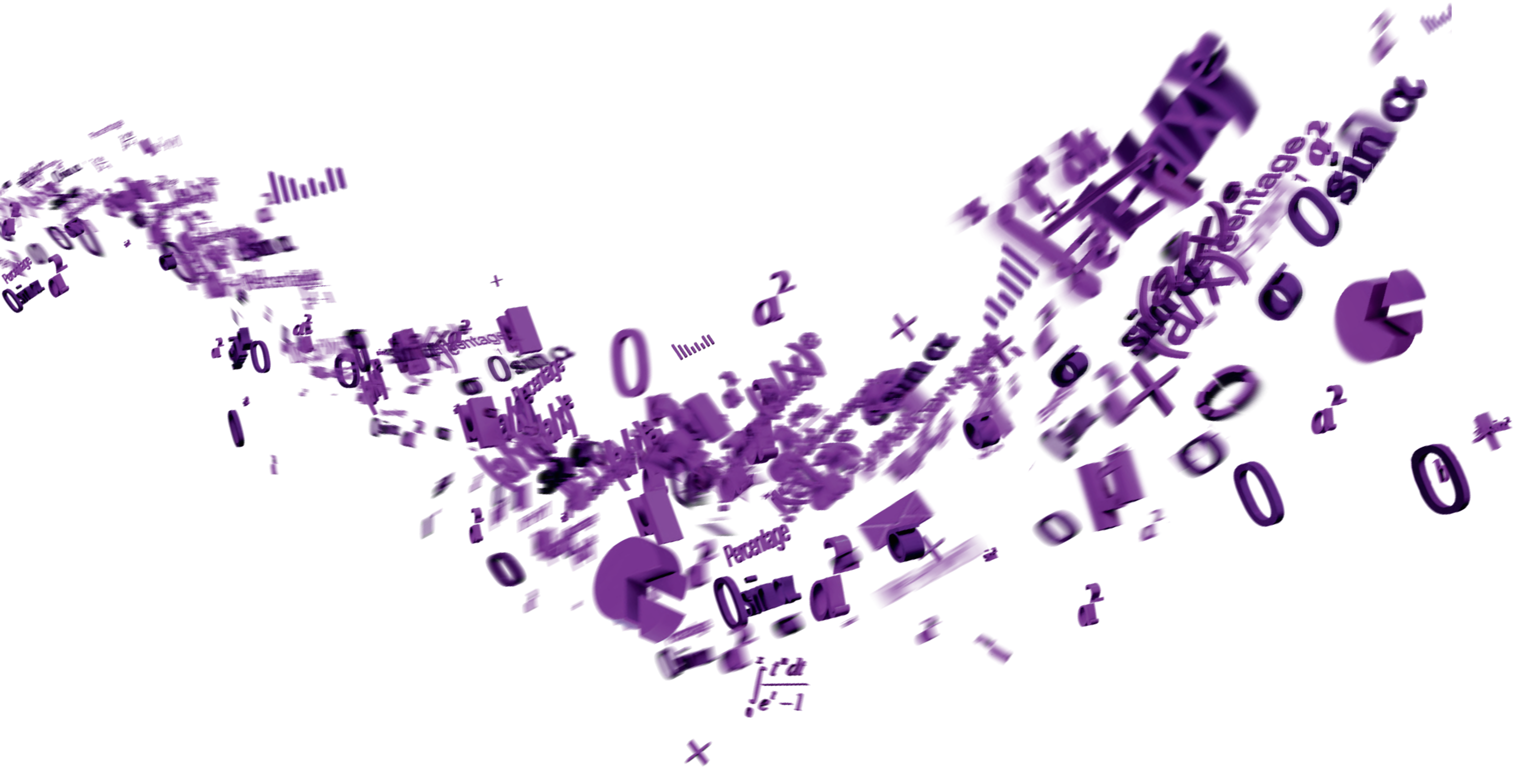
Aon Hewitt
Retirement and Investment

Investment Pooling Governance Principles for LGPS Administering Authorities

Practical Guide and Next Steps

July 2017



CIPFA The Chartered Institute of Public Finance & Accountancy

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Foreword

Last summer CIPFA, with the help of Aon Hewitt, issued a statement on the governance principles for administering authorities in developing their relationship with the newly created investment pools.

The April 2018 deadline for the creation of the pools is fast approaching and the principles included in that document are more appropriate than ever. They are aimed at the administering authorities and offer advice and guidance on how they should build a relationship with the pools.

The guidance also includes a timely reminder for Chief Finance Officers in both administering authorities and employers of their responsibilities where local government pensions are concerned.

I hope this short guide will encourage you to seek out the full guidance.

Mike Ellsmore
Chair of CIPFA Pensions Panel

As the asset pools have developed over the last 12 months, a couple of key areas have risen in prominence for many participating administering authorities. Most notably, communication and potential conflicts of interest.

This short guide draws out from the full Guidance some of the key points relating to these two important current issues.

In addition, we have set out the timetable to April 2018, with some prompts for actions you need to take ahead of the deadline. We hope that you find it useful.

Dave Lyons
LGPS Consulting, Aon Hewitt

The April 2018 deadline for the creation of investment pools is fast approaching

The CIPFA Guidance is designed to highlight the risks, opportunities and best practice over the establishment, transition into and long term operation of the investment pools.

However, in this current establishment phase there are two areas of the Guidance that are currently of particular relevance: communication and potential conflicts of interest. Here is a summary of these two important issues:

1 Communication – information and reporting requirements

Administering authorities should expect:

A **forward-looking business plan** for the operator over an appropriate period

Declarations in respect of any actual or perceived **conflicts of interest** and how these are being effectively managed *(please also refer to the section below)*

Regular contact between representatives of the (formative) operator and pension committees, perhaps through the oversight committee

Members should be involved in the decision making process at the investment pool level, otherwise unnecessary problems may arise

2 Potential conflicts of interest

Potential conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisors to LGPS funds, and never potentially more so than now.

Section 7(5) of the *Public Service Pensions Act 2013* defines a conflict of interest as:

> "A financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)".

The establishment of investment pooling arrangements creates a range of additional roles that Committee Members, representatives, Officers and advisors might have. For example:

- Advisors of administering authorities who **might bid for future work as part of the oversight committee or operator**
- Officers who **might apply for employment (or be transferred under TUPE) to an operator**
- Elected Members of an administering authority who **utilise a specific fund manager looking for that fund manager to be adopted by the operator**, in order to reduce their individual administering authority's transition costs

Similar arrangements should be put in place in relation to the oversight committee and any sub-groups or sub-committees.

What to do, and what to expect

It is critical that each administering authority documents, and all individuals understand, what decisions need to be made during this establishment period, and where and how those decisions will be made.

During the establishment period, each pension committee and the key decision makers at each administering authority should be fully engaged and should be provided with at least the following:

Regular updates on the project plan

Sufficient information to **monitor against the agreed budget** for implementation

More detail, papers and information as they are being developed

Due to the major risks involved in the investment pooling establishment project, pension committees should expect more and/or longer meetings (as well as additional training sessions) to allow sufficient time to deal with business as usual items, in addition to the many agenda items relating to investment pooling.

The joint committee created during the establishment period should be provided with similar information, and much of the information will be shared between the joint committee and administering authorities as part of the ongoing decision making process.

It is important that the establishment phase is properly managed; with allocated project management resources and professional advice, including but not limited to legal, investment, governance, and (where an operator is being built) expert advisors on establishing such businesses who are used to dealing with the Financial Conduct Authority's authorisation processes.

The key elements of the establishment phase should feed into individual administering authorities' business plans.

> "It is important that the establishment phase is properly managed; with allocated project management resources and professional advice"

Countdown to April 2018

With April 2018 fast approaching, how well prepared are you to make sure your governance plans account for the new Investment Pool your fund will invest in?

Chief Finance Officer's responsibilities:

- Stay close to your pension costs
- Focus on the long term
- Ensure the Fund's governance arrangements are fit for purpose

Remember the creation of the Pools does not reduce the CFO's responsibilities for the costs of pensions. The buck ultimately stops with the employer.

We have designed the following simple timeline and checklist to help.

July
Review policies and strategies and council constitution

July – Aug
Make necessary amendments to policies and constitution

Sept – Dec
Committee approves changes and amendments

Sept – Dec
Agree members of Oversight group, Officers group and shareholders group

April
Implementation deadline for the pooled approach

Have you...

✓

1. Updated the council's constitution?
2. Reviewed all your policies and strategies?
3. Decided on your representative for the Oversite Group?
4. Decided on your representative for the Officer Group?
5. Updated the fund and council risk registers?
6. Updated the Fund and Council business plans?
7. Organised member communications?
8. Arranged staff training?