



Tyne and Wear Pension Fund

Administered by South Tyneside Council

By e mail to LGPensions@communities.gov.uk
Teresa Clay
Local Government Finance Reform and Pensions
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27th March 2019

Dear Ms Clay,

Response to the consultation on draft statutory guidance on asset pooling in the Local Government Pension Scheme

This is the response of South Tyneside Council, as the administering authority for the Tyne and Wear Pension Fund. The Fund is one of twelve partner funds in the Border to Coast pool. The response has been approved by the Pensions Committee and the Local Pension Board.

Throughout the document there are a number of references to actions that pool members must or should undertake, in relation to investment strategies and asset allocation strategies. These references are welcomed, as they reaffirm the responsibility for determining investment strategies and asset allocation strategies rests with the pool members. Specifically:

- the use of in-house or external investment management (paragraph 3.2)
- the allocation of assets between active and passive management (paragraph 3.6)
- the setting of the asset allocation strategy (paragraphs 4.2, 4.7, and 4.11)
- the setting of the investment strategy (paragraph 4.7)

In general terms the Fund is supportive of the new guidance, in that it provides appropriate clarity in a number of areas. There are, however, a number of specific points we would like to make.

Paragraph 3.6 describes the review of the balance between active and passive management, and implies that passive management offers better risk adjusted returns. We do not accept this view. All pool members are fully aware of the benefits active management can bring, and the costs. One of the primary goals of the Border to Coast pool is to generate outperformance from active management.

This has the potential to drive a move away from passive management into active management and into alternatives. In any event, the determination of the balance between active and passive management is part of the asset allocation strategy and rests solely with the individual pool members. A review of this balance will typically be a part of any strategy review.

Paragraph 4.3 is factually correct in that LGPS benefits are not dependent on the stewardship of Pensions Committees, but are established and paid under statute in force at the time. However, it needs to be recognised that prudent and effective stewardship can have a significant impact on employer contributions. Ultimately some of these costs will fall on local taxpayers, therefore any decisions taken by Pensions Committees can and do have an impact at the local level.

We agree with the principle in paragraph 4.4 of taking a long term view, but would refer to the comments above which correctly note that the primary fiduciary responsibility of the administering authority is to the employers, members and local taxpayers of each individual fund. The move to pooling does not change this position.

Referring to paragraph 4.8, setting the asset allocation strategy is the clear responsibility of each pool member. It is determined in light of the liability profile and cash flow requirements of each individual fund. Implementation of the collective asset allocation strategies, including tactical positioning, is the responsibility of the pool company. Although the paragraph makes a good point, in that consideration of choice and scale should be built into the setting of the asset allocation strategy, it is very important that the lines of responsibility are not blurred.

Paragraph 5.2 should be amended to reflect the role of pool members in transition processes. This is especially the case where any transitions take place outside of a pool fund (ACS). In those cases, the legal ownership of assets will rest with the pool members, up until the point of transfers into the ACS, so they will be responsible for the appointments of transition managers and transition advisors. As it is currently written, the guidance only recognises that the pool members are picking up the costs. The reference to “pool governance bodies” should be replaced by “pool members”.

The view of the Government in paragraph 5.3 is welcomed. However, pool members and the pool company need to be comfortable that inter-authority payments for transitions outside of the ACS are legal. Legal advice received by the Border to Coast pool members, before this draft guidance was issued, has said they may not be. The Government’s view should be backed by a legal opinion, to give the pool members the assurance they will require.

The statement in paragraph 5.5, that it is appropriate that certain assets can be retained outside of the pool company by pool members for the reasons given, is welcomed. Also welcomed is the specific mention of life insurance contracts used for passive investment purposes, and direct property investments. There will be different circumstances associated with each potential transfer of investments from pool members to the pool company, and this helpfully provides pool members the flexibility they will need.

Paragraph 6.3 could be interpreted to mean that any pool member can invest in any pool vehicle of any pool, if it fits a specific investment strategy requirement. The intention of the guidance may be to allow investment into another pool by pool companies rather than pool members, where a pool

company does not have the necessary resources or expertise to invest directly, or where there may be greater benefits in collaborating. It is suggested that greater clarity on this point should be provided.

The guidance in paragraph 6.4 is welcome, so that pool members can continue to make new investments outside of the pool company in circumstances where the pool company is unable to offer a suitable vehicle to deliver an individual pool members asset allocation requirements.

Paragraphs 8.1 to 8.5 simply require pool members to follow the CIPFA guidance. It is unnecessary for this guidance to say more than that. Should CIPFA guidance change over time, it would otherwise be necessary to amend this guidance as written.

Referring to paragraph 8.8, the SAB annual report will be published after the pool member annual reports, and after the pool company annual report. It must therefore be for the SAB to ensure consistency, not the other way around.

Paragraph 8.9 effectively introduces a “comply or explain” requirement so it is suggested that this is made more explicit.

Yours sincerely

Councillor Eileen Leask
Chair of Pensions Committee

Jim Woodlingfield
Chair of Local Pension Board