

Pensions Pooling

Employers Meeting

13 January 2017

North Yorkshire Pension Fund – Key Stats

- 125 employer organisations
- 33,990 employees in Fund
- 19,710 pensioners
- 31,969 deferred pensioners
- Assets of circa £2.8bn (as at Sept 2016)
- Funding level of 93%
- Full external asset management
- 3 and 5 year investment returns rank as 4th best out of 89
- Administering authority owes fiduciary duties to the scheme employers and members.



North Yorkshire
County Council

Government Policy

George Osborne's Speech at Conservative Party Conference, October 2015

“At the moment, we have 89 different local government pension funds with 89 sets of fees and costs.

It's expensive and they invest little or nothing in our infrastructure.

So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country.

It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions.”

Background – Timeline To Date

- Hutton Review 2012,
- Public Service Pensions Act 2013,
- Sec State DCLG – statement (May ‘13),
- Consultation Active / Passive (May - Jul ‘14)
- Govt. consult “*criteria*” (Aug – Oct ‘15)
- Chancellor’s Budget Speech (Nov ‘15)
- Consultation & Draft Invest. Regs. (Nov ‘15)
- Initial Joint Pooling Proposals (Feb ‘16)
- Chancellor’s Spring Statement (Mar ‘16)
- Cross Dept. Review Meetings (July ‘16)
- Final Pooling Proposals (July ‘16)
- Investment Regs. enacted (Nov ‘16)
- Ministerial Review Meetings (Nov ‘16)

Government Policy

Minister's Expectations

- As minimum, single legal entity (Pool) with circa £25bn of assets
- Pool responsible for selecting and contracting with managers (FCA regulated activity)
- Pool responsible for employment of staff (potential TUPE) and salaries will be high for some of posts
- Clear distinction between governance roles and operational roles
- Structure, standards and systems of a FCA regulated entity provide 'substantial assurance'
- Benefits of scale; better vfm; and broader investment opportunities

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Investment Strategy Statement

7. – (1) An authority must, after taking proper advice, formulate and investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority's investment strategy must include –

(d) The authority's **approach to pooling investment, including the use of collective investment vehicles and shared services**

Directions by the Secretary of State

8. – (1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to act in accordance with guidance issued under regulation 7(1).

(2).... The Secretary of State **may make a direction requiring** all or any of the following –

(a) That the authority make such **changes to its investment strategy** under regulation 7...

(b) That the authority **invest such assets or descriptions of assets as are specified** in the direction in such manner as it specified in the direction;

(c) That the **investment functions of the authority... be exercised by the Secretary of State;**

(d) That the authority **comply with any instructions** of the Secretary of State... in relation to the exercise of its investment functions.....

Next Stages

NYCC is administering authority for North Yorkshire Pension Fund so:-

13 January = Other Employers briefing

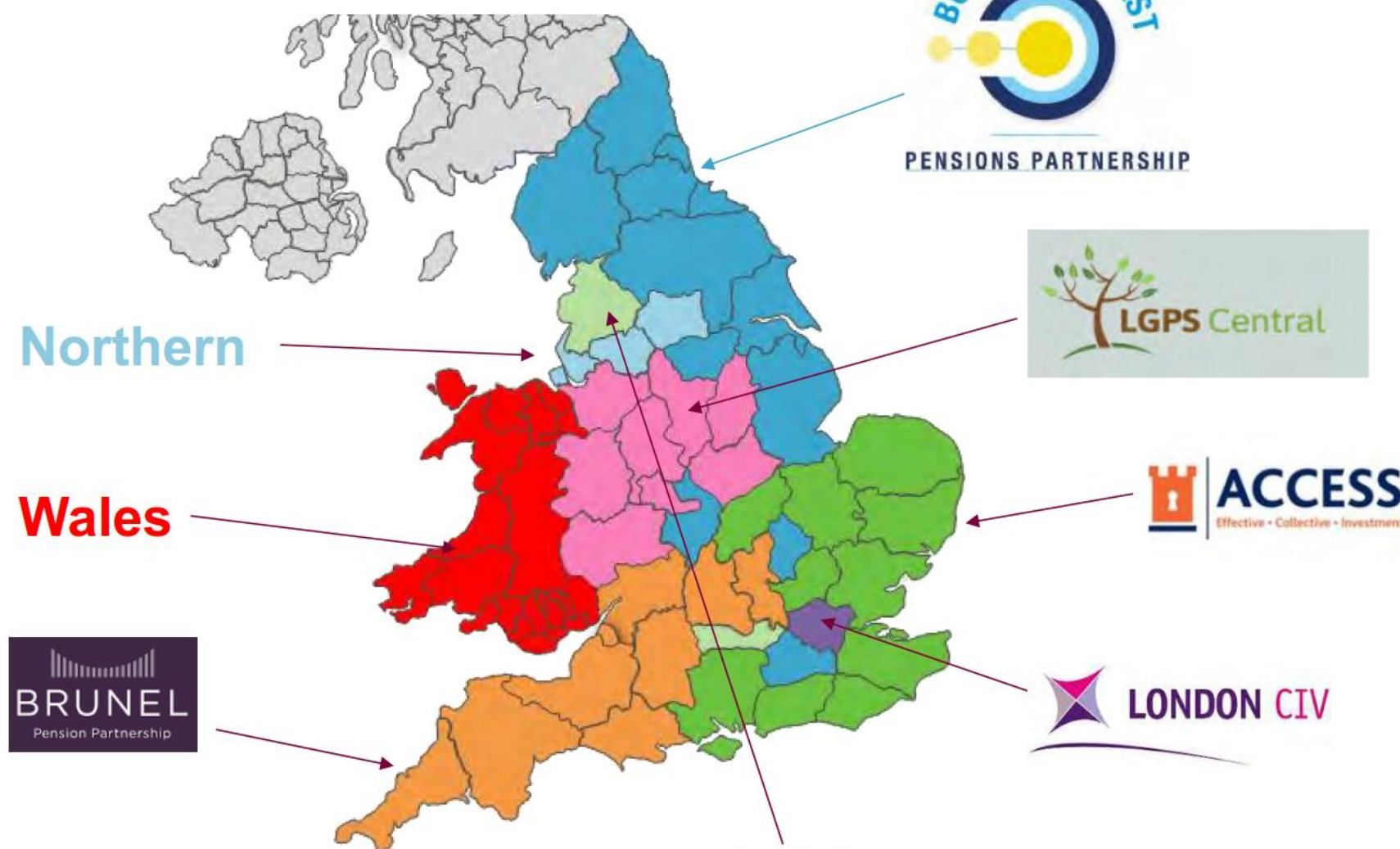
26 January = Pension Fund Committee meeting to consider joining of BCPP

31 January = Executive consider recommendation from PFC for referral to County Council

15 February = County Council (as administering authority of North Yorks Pension Fund)

As above for other 12 Funds














Eight pool proposals





**North Yorkshire
County Council**

Border to Coast Pensions Partnership

 <p>Bedfordshire Pension Fund</p>	<p>£1.7bn</p>	 <p>SOUTH YORKSHIRE PENSIONS AUTHORITY</p>	<p>£6.3bn</p>
 <p>Cumbria County Council</p>	<p>£2.0bn</p>	 <p>Sheffield City Region COMBINED AUTHORITY</p>	<p>£0.2bn</p>
 <p>Durham County Council</p>	<p>£2.3bn</p>	 <p>Surrey Pension Fund</p>	<p>£3.2bn</p>
 <p>ERPFF East Riding Pension Fund</p>	<p>£3.7bn</p>	 <p>Teesside Pension Fund</p>	<p>£3.2bn</p>
 <p>Lincolnshire COUNTY COUNCIL <i>Working for a better future</i></p>	<p>£1.8bn</p>	 <p>Tyne and Wear Pension Fund Administered by South Tyneside Council</p>	<p>£6.4bn</p>
 <p>North Yorkshire County Council</p>	<p>£2.4bn</p>	 <p>WARWICKSHIRE pension fund</p>	<p>£1.7bn</p>
 <p>NORTHUMBERLAND Northumberland County Council</p>	<p>£1.1bn</p>	<p>BCPP</p>	<p>£35.9bn</p>

Figures at 31.03.15 – Current figures >£40bn



	Pool	Final Approval	
1	Access (10 Funds)	£30.0bn	TBC
2	L-CIV (33 Funds)	£27.6bn	TBC
3	Brunel (10 Funds)	£23.2bn	TBC
4	Central (9 Funds)	£35.0bn	✓
5	Northern (3 Funds)	£35.7bn	TBC
6	LPP (3 Funds)	£13.7bn	TBC
7	Border to Coast Pensions Partnership (13 Funds)	£35.9bn	✓
8	Wales (8 Funds)	£12.3bn	✓

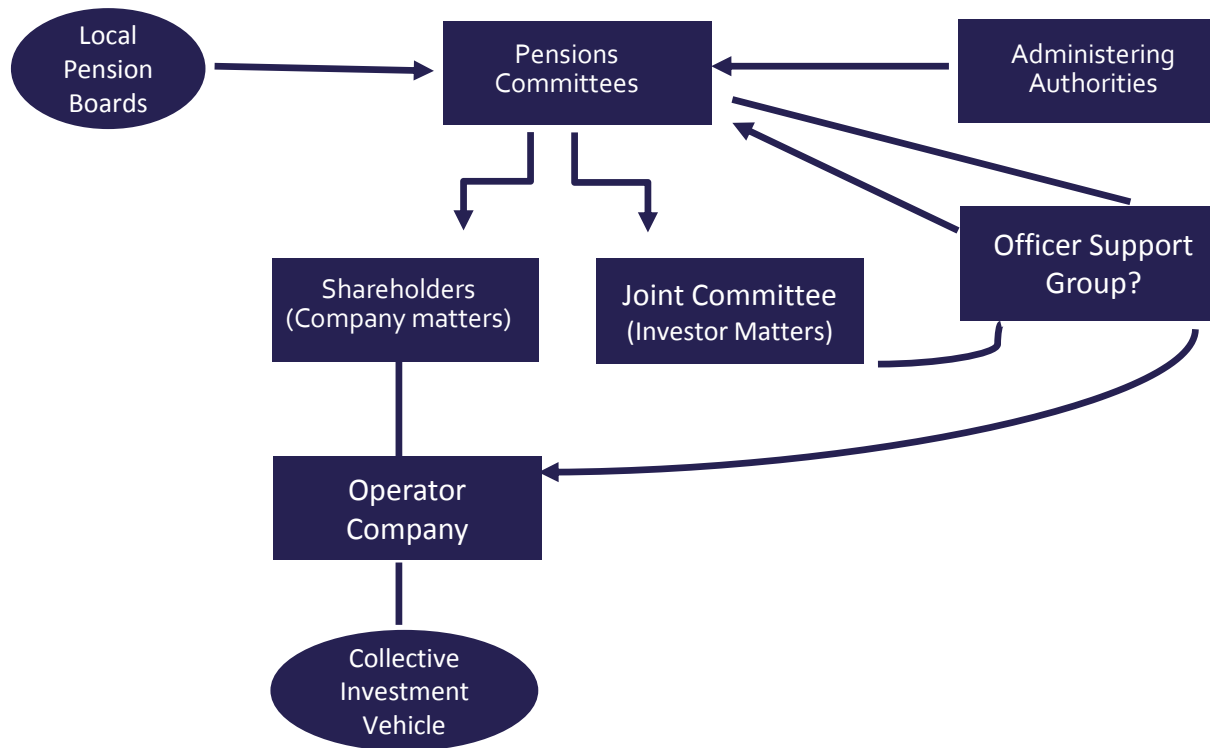
Ministerial Meeting Dates for Future Meetings:-

- Access - 29th November
- Brunel - 30th November
- L-CIV - 12th December
- Northern - 13th December
- LPP - 15th December

What Are BCPP Proposing?

- Jointly owned, fully regulated asset management company
 - FCA regulated
- Providing Internal, External Investment Management Services
- Single location in Leeds
- Over time all assets to be transferred into BCPP excepting external passive; some illiquid assets; & some small amounts for regional investment,

BCPP Governance Structure?



High Level Timeline

Action	Date
Award Legal Contracts	Nov '16
Ministerial Approval, budgets released	Nov '16
Finalisation of Legal Docs.	Jan '17
Final Approval through Council	Mar '17
Work on Senior posts; selection major service providers	Now - Mar '17
Finalise go live sub-fund offering, & required FCA approvals	Now – Mar '17
First Shareholder / JC Meeting	Apr '17
Appoint Co. Executives & Compliance Officers	Apr '17
Appoint Asset Servicer + others e.g. bank, ICT, premises,	May '17
FCA Application	Sep '17 - Mar '18
TUPE + recruitment of vacant positions	Dec '17 - Mar '18
OPERATIONAL & READY TO TRANSITION ASSETS	Apr '18
Bed down internal teams; ICT operational issues & start procurement processes external manager appointment	Apr – June '18
Transition External Managers	Jul '18 – Dec '19



1. PFC still responsible for investment strategy (& fiduciary duty) but not investment fund manager appointments
2. Infrastructure = threat or opportunity?
3. NYPF needs to hold Pool to account for performance and ensure investment needs met by Pool (Joint Committee)
4. NYPF also 1/12th owner of the Pool so will have shareholder responsibilities
5. Senior roles within Pool likely to be earning high salaries given market
6. FCA = assurance / higher compliance requirements
7. How final are details (eg shareholders agreement; Joint Cttee ToR; structures and roles / remuneration etc)?

Payback Periods Per Fund

	Capital Pay Back		On Going Annual Savings By 2028 (£'m)	
	Best Case	Worst Case	Best Case	Worst Case
Total BCPP	immediate	Year 5	53.406	23.125
Bedfordshire	Immediate	Immediate	2.122	1.092
Cumbria	Immediate	Year 4	4.210	2.075
Durham	Year 1	Year 4	7.005	3.193
East Riding	Year 2	Year 6	5.206	2.119
Lincolnshire	Year 2	Year 4	3.729	1.701
North Yorkshire	Year 2	Year 6	2.882	1.364
Northumberland	Immediate	Immediate	2.255	1.176
South Yorkshire PF	Year 3	Year 12	5.323	1.289
Surrey	Immediate	Year 4	5.070	2.837
Teesside	Year 5	Year 31	1.937	0.204
Tyne & Wear	Immediate	Year 6	10.677	4.507
Warwickshire	Immediate	Year 2	2.939	1.505
SYTF	Year 2	Year 2	0.051	0.063

Options

1. Sign up with BCPP - accept one of 13 Funds and compromises inevitable
2. Look for other Pool – limited time
3. Resist pooling – risk Secretary of State intervention and scrutiny

Questions?

Supplementary Slides

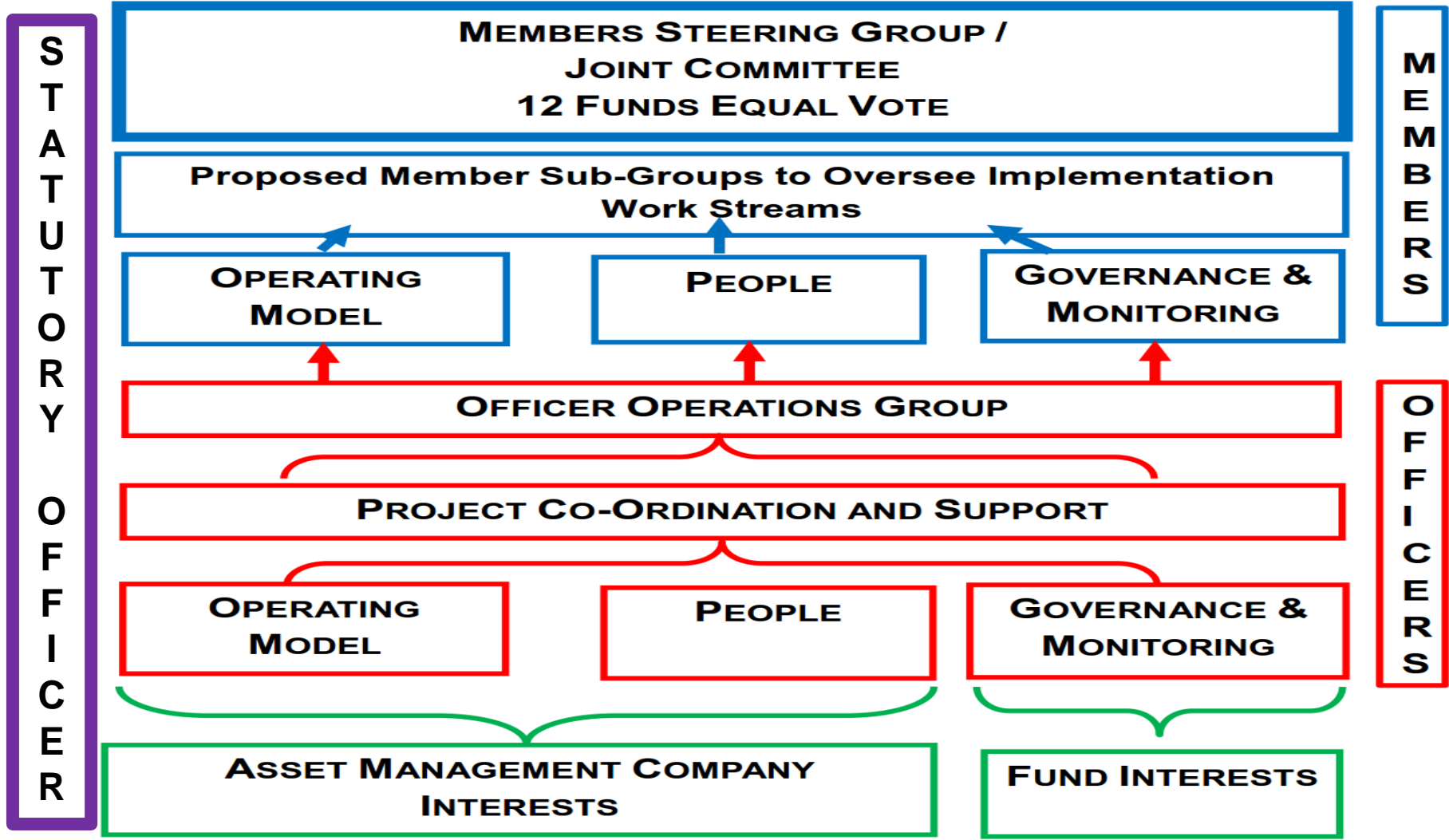
Counsel's opinion of Mr Nigel Giffin QC, obtained by the Local Government Association on behalf of the LGPS Shadow Scheme Advisory Board in March 2014 (*Advice on Fiduciary Duty with Regard to the Investment of Local Government Pension Scheme (LGPS) Funds*), concluded:

In managing an LGPS Fund, the administering authority has both fiduciary duties and public law duties (which are in practice likely to come to much the same thing).

The administering authority does owe fiduciary duties, both to the scheme employers, and to the scheme members.



BCPP Project Framework





Department for
Communities and
Local Government

Cllr Denise Le Gal, Surrey
Cllr Sue Ellis, South Yorkshire
Cllr Doug McMurdo, Bedfordshire

Marcus Jones MP
Minister for Local Government

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On behalf of the participating funds listed at end

12 DEC 2016

Dear Councillors,

BORDER TO COAST PENSION PARTNERSHIP (BCPP): FINAL PROPOSAL

I would like to thank you and all the authorities involved in the proposed BCPP pool for your final proposal, which we discussed at our meeting on 24 November. I was glad to note your commitment to work together to secure benefits for all participating funds, building on your existing internal expertise. I appreciate the hard work and commitment from elected members and officers which the proposal represents, and welcome your determination to deliver on time.

It is now coming up to a year since we set the framework for reform of the investment function of the local government pension scheme, through the guidance and criteria for pooling published in November 2015. I am pleased that authorities across the scheme have responded to the challenge and come together to form partnerships of their own choosing based on a shared view of investment strategy. We do not underestimate the scale of the changes required, but the Government remains committed to pooling in order to deliver reduced costs while maintaining performance as well as to develop capacity and capability for greater investment in infrastructure.

I appreciate that overall costs are likely to rise in the early years, and that salaries are likely to be high for key senior roles within pool operators. But I consider that this is a price worth paying in order to achieve substantial savings, already estimated by the pools at £1-2 billion by 2033 or up to £200 million pa in the medium term. I am confident that as the reform beds in, there are further savings to be achieved.

I therefore expect every administering authority in England and Wales to participate in a pool. I also expect authorities to place all assets in their chosen pool, unless there is a strong value for money case for delay, taking into account the potential benefits across the pool, and to delegate investment manager selection to the pool. In addition my officials will be consulting with all pools on the potential to work with the Local Pensions Partnership to help ensure it delivers the full benefits of scale.

I must also underline that all bodies effectively undertaking collective investments will need to be authorised at the appropriate level by the Financial Conduct Authority (FCA). I appreciate the significant costs and effort required to secure authorisation. However, given the scale and complexity of the pools, and the substantial public funds involved, scheme members and the local taxpayers who underpin the scheme have a right to expect the high level of assurance which is provided by FCA authorisation. Individual funds will continue to be responsible for their investment strategies and asset allocation and will continue to require high standards of governance.

On the basis set out above I am pleased to confirm that I am content for you to proceed as set out in your final proposal. I hope you will continue to work closely with my officials, including on the concerns you raised relating to the Markets in Financial Instruments Directive II (MiFIDII).

Turning to the future, I appreciate there has been some delay this autumn, but I have no plans to extend the deadline for pools to become operational in April 2018. I will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017 and an application for Financial Conduct Authority authorisation, where not already in place, in autumn 2017. I look forward to seeing more detailed plans for delivering savings, and increasing your infrastructure investment in line with your stated ambition. I will also expect detailed plans for reporting, including on fees and net performance in each listed asset class against an index, standardised across the sector.

Your Sincerely,

MARCUS JONES MP

Participating funds:

Bedfordshire
Cumbria
Durham
East Riding
Lincolnshire
North Yorkshire
Northumberland
South Yorkshire
South Yorkshire Integrated Transport Authority
Surrey Teesside
Tyne and Wear
Warwickshire