North Yorkshire County Council

Pension Fund Committee

Minutes of the special meeting held on 15 January 2016 at County Hall, Northallerton commencing at 2.00 pm.

Present:-

County Councillors: John Weighell (Chairman), John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Patrick Mulligan and Helen Swiers.

Councillor Jim Clark - Local Government North Yorkshire and York).

David Portlock - Chair of the Pension Board.

Officers: Gary Fielding, Tom Morrison, Amanda Alderson and Josie O'Dowd.

Advisers: Geoff Dalton and Dave Lyons, AON Hewitt.

Representatives of the Pension Board were in attendance as observers.

Copies of all documents considered are in the Minute Book

Declarations of Interest

County Councillors Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Patrick Mulligan and John Weighell; together with Councillor Jim Clark declared non-pecuniary interests in respect of them being members of the Pension Scheme.

108. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Appendix 3 of Item 2 on the grounds that it involved the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.

109. LGPS Pooling Arrangements

Considered -

The report of the Treasurer updating Members on progress towards the Government's announced intention to pool the assets of LGPS funds and seeking agreement from Members on the approach North Yorkshire Pension Fund will take through this process, specifically which group of LGPS Funds should join to work up a proposal.

Gary Fielding, Corporate Director - Strategic Resources, introduced the report acknowledging that the question had been debated on a number of occasions and that the proposal was not universally well received. He confirmed that a response to

Government was required by 19 February 2016, advising that if a response was not despatched by the due date, there would be a risk of compulsion for travel in a given direction which could be outside of the Authority's control. He commented upon the degree of coverage in the press of the issue and the likely input of the Government regarding investment decisions, whilst accepting that much was still unknown at this stage. He advised that now was the time to consider who the NY Pension Fund wish to work with, and who is best placed in light of the Government's declared direction of travel. He stressed that any decision at this point would not be final and changes could be made; he cautioned that it was not advisable to sit on the fence in this matter. He mentioned the work which was on-going, for example, with the Association of County Council Treasurers looking at the implications of these changes - given it is County Councils who tend to administer schemes. Such forums provide the opportunity to feed concerns up to Government. A particular attraction of collaboration with East Riding, Cumbria and Surrey is the proposed governance arrangement which is based upon one seat for each Pension Fund. This was felt to provide a very positive start and North Yorkshire fits well with this. Information circulated by email to all by County Councillor Roger Harrison-Topham was acknowledged, and Gary Fielding advised that many of the issues raised cannot now be changed and whilst Members may not support the proposals for pooling arrangements, these do now need to be embraced.

Members commented as follows:-

- The arrangement does not seem sustainable in the longer term as it is inappropriate to take out investment without looking at the consequent liabilities. Geoff Dalton, Adviser, stated that decisions regarding the strategic allocation would stay with the North Yorkshire Pension Fund Committee. Several Members commented upon the conflict that this situation represents and concern was voiced about the potential loss of control. It was felt that the new arrangements would potentially limit options for example around the types of investment that may be undertaken. Gary Fielding felt that the real impact was still unknown at this stage.

Geoff Dalton advised that more detail would be confirmed by July and he accepted that the situation was very frustrating for Members. Given there would be a dilution of direct control the importance of choosing the right partners with who to collaborate was of key importance. Providing an overview, he advised that many Pension Funds had made poor investments, hence the Government's impetus towards pooling. It was acknowledged that most had not performed as well as North Yorkshire. He stated that some savings would accrue in future as a result of operating on a greater scale, adding that legislation was currently being drafted to compel pooling arrangements where this proved necessary. Given this backdrop he felt that seeking like-minded partners was a prudent approach and on this basis he sought support for the proposal to work with East Riding, Cumbria and Surrey.

- A Member commented that great concern had been expressed by many local authorities at the Pension Fund Conference which had been held in December. He advised that most had issues with the Government's proposals but acknowledged the issue would move forward. He urged that the consultation response captures all the feedback given by Members at what is 'a game changing moment'. He hoped that the consultation response would reflect the collective strength of feeling on this matter. He supported resisting a partnership arrangement with a large Fund in which circumstances North Yorkshire's voice might not be heard.

- A Member queried the scope for holding assets outside of the pool to match liabilities, and therefore retain some discretion. Dave Lyons, Advisor, advised that property can be held indefinitely by local authorities as an on-going investment. He noted that all liquid assets were outside the scope of pooling arrangements, but added the collaborative groups may later be able to have liquid options. He advised that it could take four to five years to bring the assets together as a long transition period was required.

- It was accepted that the Government was looking for the costs of administration of schemes to be reduced as a consequence of pooling arrangements.

- The Government's imperative to improve capacity for investment in infrastructure projects was noted and this was felt to be a concern as set out by Councillor Roger Harrison-Topham in his email. It was hoped that Pension Funds would not become the investor of last resort as this would compromise the responsibility to stakeholders. The Secretary of State will have the power to intervene if they think local authorities have not invested appropriately ignoring investment and return considerations. Gary Fielding confirmed that the consultation response from North Yorkshire would be based upon the views expressed. He felt that the reference to infrastructure was presently ambiguous but continued to be pushed by Government. He felt that this compromised the duty to optimise returns and he sought to defend this right. He accepted that collective investment vehicles may make it easier to invest in good infrastructure projects but stressed that this was not because they happened to be infrastructure projects.

- A Member queried the impact of what Government is proposing upon governance arrangements, particularly in relation to the importance of Fund Managers. It was felt that the function would still survive but clearly in a diminished role. Geoff Dalton advised that the emphasis would very much be upon checking and monitoring the success of pooled arrangements, to seek to achieve the best investment choices. He advised that this would involve the usual due diligence checks on the arrangements, with reports to Pension Board being submitted accordingly.

- A Member felt that there was no tie-up with the aspirations of good governance given so much would be taken out of Members' hands. It was felt that there would be an imperative to invest in infrastructure, for example HS2. The Member wished to know what could be done to mitigate such Government intervention, to protect stakeholders - given there is no wish to see diminishing returns in five years' time. She wished to know how steps could be taken to offer some protection whilst still complying with the Government's requirements.

- It was noted that there is nothing wrong with investment in infrastructure projects per se but it was accepted that it was difficult to find such opportunities with good returns in the long run. Rate payers could therefore end up paying for poor performing infrastructure investments.

- A Member commented that the mantra 'big is beautiful' seems to be overplayed, the risks of being involved with too large an entity are recognised. The collaborative does not necessarily need to be that large to succeed and the Member wondered at what point the Government may intervene, what will be the threshold for intervention.

- In terms of the overall ranking of Pension Funds throughout the country North Yorkshire was just below the middle and so should be big enough to survive. At the other ends of the spectrum were the metropolitan funds which were the biggest and then at the other end the multitude of small London funds. Geoff

Dalton reiterated that infrastructure can provide good investment opportunities but at the present time they were producing reduced returns of 2-3% and so were not attractive - and on this basis do not fit North Yorkshire's criteria. He suggested that the criteria for investment do not necessarily need to change, however it would be beneficial to have a policy on this. Dave Lyons reminded Members that the whole question of infrastructure investment arose after George Osbourne had mentioned it at a party conference - an off the cuff comment originally, but by September DCLG were trying to manage expectations around this. Gary Fielding again stated that such an approach would be at odds with the professional responsibilities placed upon Pension Funds. He felt that if mandated to make such investments, how could the Pension Fund Committee remain accountable.

- It was noted that a second consultation response from the proposed pool group would be sought in July. Tom Morrison stated that this would provide the opportunity for a more detailed response from the pool group.

- Concerns were expressed about the seeming lack of understanding amongst Ministers regarding the self-funding nature of the LGPS. A Member felt that in view of this it was particularly important that the North Yorkshire response captured the good things about the present decision-making arrangements and that concerns were spelt out clearly. Another Member urged that the focus upon protecting the best interests of our pensioners and council taxpayers was not lost.

- It was acknowledged that the criteria for pooling was predicated upon achieving reduced costs however, whilst reduced administration costs may be achieved, the price for this may be reduced performance and therefore a greater cost to pensioners. It was noted that there will be more admitted bodies in future - for example academies and as a consequence of this taxpayers could end up picking up more costs. Gary Fielding added that in accordance with LGPS14 this scenario could result in greater contributions for active members also. Geoff Dalton advised that after 2017 the impact of the new arrangements would be reflected in returns. He noted that the performance of London Boroughs has damaged the reputation of Local Authority Pension Funds overall. He reiterated that in light of this, who North Yorkshire partners with is particularly important.

- A Member acknowledged that the North Yorkshire Pension Fund had previously been at the bottom of performance tables but this had been turned around, and now it was at the top.

- A Member asked that the response once in draft form, it should be circulated to Members for comment.

- A Member sought assurance that the day to day running of the Pension Fund would be unaffected by the additional workload created as a result of the pooling initiative. Gary Fielding acknowledged the additional burden and advised that he was conferring with other County Treasurers regarding how to address this.

Discussion then turned to the exempt Appendix 3 and Gary Fielding advised that this contained the limited information which was available, acknowledging that this was not an ideal scenario upon which to make an evidence-based decision. He reiterated that more information would be available by July 2016, following the undertaking of due diligence checks. Any decisions regarding potential partners could still be reversed if adverse information were forthcoming, and similarly if there were any change of direction from Government. It was hoped that North Yorkshire would be seen as an attractive partner as an award winner, and hopefully this would also allow North Yorkshire to influence future discussions. He felt that the success achieved around global equities hopefully demonstrates that the Fund has something to offer.

Dave Lyons then outlined the four criteria set out by the Government for the pooling of assets. These being:

1. Asset pooled must achieve the benefits of scale (as least £25bn).

2. Strong governance and decision-making.

3. Reduced costs and excellent value for money.

4. An improved capacity to invest in infrastructure.

He explained that this situation had been emerging for the last 13 to 14 years, and transition was finally underway. He advised that other criteria were likely to apply further down the line. He also spoke of the three types of collaboration and support was expressed for collaboration with like-minded partners, which therefore had a better chance of success. Details were shared regarding ten emerging collaboratives and there was discussion of their various strengths and weaknesses.

Members shared the feedback they had gleaned from their various networks of contacts. Some Members felt that the options were "a dog's breakfast" and that the criteria for coming together were not always obvious. County Councillor Roger Harrison-Topham had looked at the figures and had identified the costs per Member of each option. It was noted that the shire costs were generally good and less so for others. There was concern that the right partnering decisions were made and that the decision should not be taken out of desperation to avoid compulsion. Whilst geographic proximity may be helpful, there was consensus that working with like-minded authorities was most important factor.

Tom Morrison advised that some £14bn sat with Funds who had yet to declare their hand, they were remaining silent presently. Information was shared regarding other Authorities who may choose to collaborate with East Riding, Cumbria, Surrey and North Yorkshire bringing the total funds to a level approaching the required threshold. Members reiterated their deep concerns regarding the question of performance and insolvency - Tom Morrison acknowledged that there were some synergies due to common Fund Managers. There was also discussion of the ability to participate in various Fund classes. The benefits of working with similar sized Authorities was also noted, enabling gains to be shared equitably. Geoff Dalton accepted the point that some of the proposed collaborations appear almost random and he reiterated that that the arrangement proposed for North Yorkshire generally appeared better than the others.

A Member highlighted the concerns around in-house versus external investment and Gary Fielding accepted that this was a fair challenge. He felt that this was a judgment call rather than an issue for evidence based decision. He went on to speak of his support for collaboration with East Riding, Cumbria and Surrey, as these Authorities were actively seeking to work with North Yorkshire. He acknowledged the importance of getting on with partners and good relationships with their Treasurers – he felt mutual trust was important.

A Member noted that the Government's imperative was all about reducing administration costs and he felt that the decision regarding collaboration needed to be taken based upon performance in the round. He asked whether the Pension

Fund Committee was at risk of taking this significant decision without looking at both sides of the issue.

The Chairman, County Councillor John Weighell, felt that the Pension Fund Committee was placed in an untenable position, given the Government is compelling local authorities to decide upon pooling arrangements with the threat of Secretary of State intervention on the horizon. There was consensus amongst Members that the process leading to this point had been somewhat chaotic, demonstrating a lack of understanding amongst many civil servants of the LGPS. The Chairman stated that this was not a happy decision.

The question was raised regarding how pooling arrangements would fit with devolution and it was noted that the two were being handled entirely separately. There was discussion of the timetable for next steps and it was noted that there was not a lot of time until the second stage of consultation in July 2016. It was also noted that some of North Yorkshire's potential partners were also in discussion with others. All reluctantly agreed that there was a need to move forward with this initiative and so the proposal was agreed with a small amendment reflected in the recommendation below.

Resolved -

Members' support, in principle, NYPF pursing the option of joining the collaboration with East Riding, Cumbria and Surrey for the purposes of the consultation and to indicate to them that this is the intended course of action.

The meeting concluded at 15.55

JO'D