

NORTH YORKSHIRE COUNTY COUNCIL**PENSION FUND COMMITTEE****19 MAY 2016****LGPS POOLING ARRANGEMENTS****Report of the Treasurer**

Appendices 2, 3 and 4 contain 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.

1.0 PURPOSE OF REPORT

- 1.1 To update Members on progress towards the Government's announced intention to pool the assets of LGPS funds.
- 1.2 To seek agreement from Members to adopt the proposed governance arrangements for the 13 members of the Border to Coast Pensions Partnership (BCPP).

2.0 BACKGROUND

- 2.1 On 15 January 2016 Members agreed in principle that NYPF would join BCPP. This enabled the Fund to be a joint signatory to the BCPP submission on LGPS pooling, sent to Government by the deadline date of 19 February 2016. In addition, NYPF submitted its own response to the consultation.
- 2.2 Details of the BCPP members were not included in the papers for the subsequent PFC meeting which was held on 25 February 2016, as the final list was not known with certainty until 19 February 2016, which was after the papers were published. Membership was verbally reported at the meeting but for clarity the parties are:

Bedfordshire Pension Fund
Cumbria Pension Fund
Durham Pension Fund
East Riding Pension Fund
Lincolnshire Pension Fund
North Yorkshire Pension Fund
Northumberland Pension Fund
South Yorkshire Pension Fund
South Yorkshire Passenger Transport Pension Fund
Surrey Pension Fund
Teesside Pension Fund

3.0 RECENT EVENTS

- 3.1 On 24 March 2016 the PFC Chairs of each of the 13 BCPP members received a reply to the consultation response from Marcus Jones MP, the Minister for Local Government. The letter, attached as Appendix A is broadly supportive of the proposals set out in the BCPP response to the consultation. It anticipates that further details on costs and governance will be included in the response to the second consultation, due by 15 July 2016. It has always been the intention of BCPP to provide this.
- 3.2 The letter also asks for more details on constituent Fund's "ambition for infrastructure".
- 3.3 On 15 April 2016 PFC Chairs and Section 151 Officers from the BCPP members were invited to a meeting in York where they received an update from officers working on pooling arrangements. Representatives from HM Treasury, DCLG and the LGA were in attendance, to advise and to answer questions.
- 3.4 Officers from the Partnership also attended this meeting, and another meeting later the same day where they discussed the legal options for creation of the pooling entity. An FCA regulated Authorised Contractual Scheme (ACS) or an unregulated Committee type structure are two of the possible options, with an expectation that they will have very different risks and costs associated with them. To evidence the risks and costs associated with each option, a joint report was commissioned from Squire Patton Boggs and Deloitte to assess the legal position and costs respectively. The draft findings will be presented to officers on 10 May 2016 and will be reported verbally to the Committee.
- 3.5 On 29 April 2016 officers met to discuss progress on the work required for the consultation response. The LGA has drawn up a draft template to assist with this, which it hopes all pools will use to assist with comparisons between the responses. The details of the template are to be agreed but the broad areas will be:
1. The size of the pool; assets to be held outside the pool; the legal structure of the pool; how the pool will operate; the timetable for establishing the pool.
 2. Governance structure of the pool and arrangements between it and the administering authorities; how the administering authorities will hold the pool to account; the decision making process for investments; shared objectives and policies; resources required to operate the pool; benchmarking and performance reporting.

3. Historic and forecast investment cost comparisons, assessment of implementation and transition costs, an assessment of net of fees performance.
4. Current capacity to invest in infrastructure, plans to increase this capacity, ambition to increase this further.

4.0 NEXT STEPS

- 4.1 On 12 and 13 May 2016 BCPP officers will meet with Government to discuss the approach to infrastructure. Officers are also due to meet on 31 May 2016 to go through the draft consultation response in each of the broad areas covered by paragraph 3.5 above.

5.0 GOVERNANCE ARRANGEMENTS

- 5.1 A great deal of progress has been made on the plans for BCPP pooling arrangements, relying on the “like-mindedness” of all 13 members. However, it is expected that it won’t be long before formal decisions are required by the administering authorities, and that this will be well in advance of a formal pooling entity having been created.
- 5.2 To establish a framework for the collaborative work of the BCPP to continue and to allow for formal decisions to be made when appropriate, a Memorandum of Understanding (MoU) (Appendix 2) has been drawn up which describes the basis of the relationship between the parties and how they are expected to work together. Paragraph 6 of this document summarises the role of the Members Steering Group which is the elected Member group, comprising the Chairs of the 13 BCPP Funds. Paragraph 7 summarises the Officer Operations Group, which is the equivalent officer group. The terms of reference of the Members Steering Group and Officer Operations Group are included as Appendices 3 and 4 respectively.
- 5.3 Each PFC has been asked to approve the MoU. This will also mean that the working arrangements between BCPP members are as transparent as possible.
- 5.4 As matters develop it is likely that this document will need to be updated to accommodate changing circumstances. Members will be consulted should any material changes are required.

6.0 **RECOMMENDATION**

6.1 Members approve the Memorandum of Understanding.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

11 May 2016

Background documents: None



Department for
Communities and
Local Government

Marcus Jones MP
Minister for Local Government

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Chairs of the Pension Committees

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Dear Chairs,

24 MAR 2016

BORDER TO COAST INVESTMENT POOL PROPOSAL

I would like to thank you and all the authorities involved in the proposed Border to Coast pool for submitting your initial proposal by 19 February. I was pleased to see that all 90 authorities made a commitment to pooling, with the overwhelming majority already involved in developing a pool. The move towards collective investment represents a significant opportunity for administering authorities to deliver substantial savings and efficiencies, and your contribution is much appreciated.

I welcome the initial Border to Coast proposal and encourage you to continue with your work to develop a detailed submission that fully addresses the criteria by 15 July. Your initial group clearly meets the scale criterion and your initial proposal provides a strong foundation upon which a final proposal can be built.

The key challenge for the Border to Coast pool is to complete the development of clear and effective governance which provides the assurance authorities, beneficiaries, and co-investors require. In my view, the structure, standards and systems required for an entity regulated by the Financial Conduct Authority provide substantial assurance, and I encourage you to continue to develop your understanding of the regulatory requirements. As a minimum, I expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff. There should also be a clear distinction between the roles of those involved in the governance of the pool, and its operations.

In your July submission I will want to see more detail against the infrastructure criteria, including setting out your constituent fund's ambition for infrastructure investment where the right opportunities exist. Several pools committed to exploring a national vehicle to access infrastructure investment at a larger scale and at lower cost. We will therefore work with administering authorities to establish a new Local Government Pension Scheme (LGPS) infrastructure investment platform that meets the specific needs of LGPS investors.

I will also expect the final proposal to address the reporting requirements in the criteria and guidance in detail. Reporting will need to cover progress in establishing the pool and moving assets into it, implementation costs, fees and other costs incurred, including hidden costs, estimated savings, and net performance in each asset class.

I will also take this opportunity to respond to two questions raised in many pooling submissions:

- Some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.
- My expectation remains that all investments should be made through the pool. However, I recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or some products tailored to specific liabilities. The rationale for retaining any existing investments outside of the pool will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

I strongly encourage you to continue the current constructive dialogue with officials as you develop your thinking over the coming months. For the final assessment the panel will include members with specific expertise in investment management, and you may be asked to present at a meeting of the assessment panel well ahead of your July submission. I look forward to receiving your detailed proposals.

I am copying this letter to the chairs of Pension Committees in all the participating authorities.

Yours sincerely,

MARCUS JONES MP

By email to:

Cllr Doug McMudro
Cllr John Holtby
Cllr Tony Reid
Cllr Denise Le Gal
Cllr John Appleton

Cllr Melvyn Henry Worth
Cllr Mark Allan
Cllr David Leech
Cllr Stephen Bloundele

Cllr Andy Turner
Cllr John Weighell
Cllr Sue Ellis
Cllr Eileen Leask