

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****7 JULY 2016****LGPS POOLING ARRANGEMENTS****Report of the Treasurer**

**Appendix 1 contains 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 approval from Members for the Council to be a signatory to the Border to Coast Pensions Partnership (BCPP) proposal aimed at addressing the Government's criteria for pooling.

**2.0 BACKGROUND**

- 2.1 On 15 January 2016 Members agreed in principle that NYPF would join BCPP, and that the Council would be a signatory to the "Initial Proposal to Pool LGPS Assets" sent to Government by the BCPP on 19 February 2016. In response, each BCPP Fund received a letter from Marcus Jones MP which described broad support for this initial proposal and the expectation that a more detailed proposal would follow. The deadline for this second proposal is 15 July 2016.
- 2.2 To remind Members, the 13 Funds in the BCPP 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
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

- 2.3 Since 19 February 2016 officers have been working on a more detailed proposal. This has included the commissioning and consideration of legal advice from Squire Patton Boggs on the options for creating a pooling entity, and financial advice from Deloitte on the costs associated with these options.
- 2.4 Government has set out its expectations of the content of the detailed proposals, which are to include information on:
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.

### **3.0 RECENT EVENTS**

- 3.1 There have been three meetings of BCPP pensions committee Chairs where an update was provided by officers. In addition:
1. on 15 April 2016 representatives from HM Treasury, DCLG and the LGA were in attendance, to advise and answer questions
  2. on 6 June 2016 the update included a review of the main points included in the draft proposal and the key messages officers intended to relay to Government (see paragraph 3.2) in advance of the deadline
  3. on 24 June 2016 the Chairs went through the draft detailed proposal and recommended it for approval by the individual pensions committees of the BCPP
- Cllr John Weighell attended the meeting on 15 April 2016, Cllr Roger Harrison-Topham attended the meetings on 6 June and 24 June 2016.
- 3.2 On 7 June 2016 officers met with representatives of HM Treasury, DCLG, GAD and the Cabinet Office to discuss the main issues described in the detailed proposal. The meeting comprised a presentation by officers, the

aim being to gauge the attendees' reaction to it, to assess whether a change in approach may be required. Although there were a few questions and comments, there were no aspects of the proposal that appeared to raise concerns.

- 3.3 Although DCLG initially stated that proposals were required from the Pool and also from each individual Fund within it, on 8 June 2016 they wrote to the Chair of each pensions committee stating that proposals were only required from each Pool.

#### **4.0 NEXT STEPS**

- 4.1 The draft proposal was circulated to the Pension Fund Committee on 22 June 2016 once it had been finalised, to allow as much time as possible for Members to consider it. The document was also circulated to the Pension Board. The latest version of this document that reflects the feedback of the Chairs from 24 June 2016 is attached as **Appendix 1**.
- 4.2 Government issued a template for each Pool to complete, rather than allow freeform responses as was permitted when responding to the 19 February 2016 deadline. This is to facilitate comparisons between the responses from each of the Pools.
- 4.3 The draft proposal includes the Memorandum of Understanding (MoU), which was approved by the PFC at the meeting on 19 May 2016. The MoU described the roles the officers of each Fund will play in developing pooling arrangements, and the role Members will play in directing officers and making decisions at key points.
- 4.4 Although there are 13 BCPP Funds, the Member Steering Group will comprise 12 Funds, the South Yorkshire Passenger Transport Fund having decided to be represented through the South Yorkshire Pension Fund. This arrangement will be replicated in the Supervisory Body, once the pooling entity has been established.
- 4.5 To meet the 15 July 2016 Government deadline for submission of the proposal as well as the practical consideration that the proposal needs to be approved by all 13 Funds, Members are asked to approve the document. Any comments that Members have on the proposal will inform the development of pooling arrangements, such developments to be worked up by officers and approved by the Member Steering Group.

#### **5.0 NYPF SAVINGS**

- 5.1 An assessment of the additional costs and potential savings that pooling arrangements will bring to NYPF is shown in **Appendix 2**. This is based on the more prudent of two sets of assumptions (see section C3b) described as

“worst case”, which for reasons of expediency have been applied to all BCPP Funds, rather than a bespoke set of assumptions for each of the 13 Funds.

- 5.2 Setup costs have been apportioned equally between the 12 Funds represented on the Member Steering group, and ongoing costs by assets under management (AUM). In practice, these ongoing costs will be allocated based on why they are incurred, for example costs in relation to a global equity fund will be borne by only those investing in that fund, the basis of apportionment being AUM.
- 5.3 The set up and operational costs are based on advice from Deloitte, which in turn is based on advice from Squire Patton Boggs on the structural arrangements required to facilitate pooling. CEM Benchmarking advised on potential cost savings through economies of scale, and Legal & General on transition costs.
- 5.4 Based on these more prudent assumptions, NYPF would see a net reduction in costs after 6 years from the expected time of commencement of pooling arrangements in April 2018.
- 5.5 It has been assumed that pooling arrangements will yield cost savings beyond those achievable by individual Funds in advance of those arrangements being implemented, and discussions have been taking place with NYPF’s investment managers to explore this opportunity. Any such advance savings will be treated as a consequence of pooling, when the cost effectiveness of those arrangements is assessed.
- 5.6 Fundamental to the assessment of the effectiveness of pooling is an expectation that performance net of fees will be maintained. Considering NYPF performance over recent years, this will present a significant challenge to the Pool entity.

## 6.0 **RECOMMENDATION**

- 6.1 Members approve the BCPP Proposal for Asset Pooling in the LGPS.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

28 June 2016

**Background documents:** None

NORTH YORKSHIRE PENSION FUND - ESTIMATED BCPP SAVINGS												
	YEAR ENDED 31 MARCH											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>BCPP- Total estimated Savings</b>												
<b>Total BCPP Net Saving/ (Net Cost)</b>	1,836	(2,319)	(31,061)	6,523	8,598	10,673	12,748	14,824	16,899	18,974	21,050	23,125
<b>NORTH YORKSHIRE</b>												
Management fee savings												
Passive	-	-	-	-	-	-	-	-	-	-	-	-
Active equities and fixed income (5bps)	-	-	818	818	818	818	818	818	818	818	818	818
Alternatives (DGF 10bps, Property *bps)	-	-	533	576	620	664	708	752	795	839	883	927
Total fee savings	-	-	1,351	1,394	1,438	1,482	1,526	1,570	1,613	1,657	1,701	1,745
Costs												
Share of set up costs	-	346	-	-	-	-	-	-	-	-	-	-
Share of ongoing costs	-	-	521	521	521	521	521	521	521	521	521	521
Share of transition costs	-	-	3,873	-	-	-	-	-	-	-	-	-
Total costs	-	346	4,394	521	521	521	521	521	521	521	521	521
Fund level cost savings	-	-	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)
<b>NYPF Net Saving/ (net cost)</b>	-	(346)	(2,903)	1,013	1,057	1,101	1,145	1,189	1,232	1,276	1,320	1,364
<b>NYPF Cumulative Net Saving/ (net cost)</b>	-	(346)	(3,250)	(2,236)	(1,179)	(78)	1,067	2,255	3,488	4,764	6,084	7,447

\* Savings on Property are based on a 50bps reduction in fees, attributable to another 1/10th of the portfolio each year, from 2019.