

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 24 November 2016 at County Hall, Northallerton commencing at 10.00 am.

Present:-

County Councillor John Weighell OBE (in the chair); County Councillors John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Roger Harrison-Topham and Helen Swiers.

Councillor Jim Clark – North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

Other representatives of the Pension Board were in attendance.

Apologies – County Councillor Patrick Mulligan submitted his apologies

Copies of all documents considered are in the Minute Book

147. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Appendices 1-5 of item 5 and Appendix 1 of item 9 on the agenda on the grounds that they involve the likely 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.

148. Minutes

Resolved -

That the Minutes of the meeting held on 15 September 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

149. Declarations of Interest

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

150. Public Questions or Statements

There were no questions or statements from members of the public.

Appendices 1-5 to this report were considered in private and the public have no right of access to this. The following is a public summary of business conducted in private.

151. Triennial Valuation 2016 Update

Considered -

The report of the Treasurer updating Members on progress towards the 2016 Triennial Valuation.

The Treasurer highlighted the progress to date including previous discussions at the Pension Fund Committee meetings on 26 February and 15 September 2016, and meetings with representatives of employer bodies. Following consultation with employers, a further report on the final results of the Triennial Valuation was due to come to this Committee in February 2017.

Members queried the different approaches to this Valuation and the previous one. Officers and representatives from the Actuary (Aon Hewitt) explained that this reflected a combination of a legitimate difference in approach to certain aspects of the Valuation between Aon Hewitt and the previous Actuary, and changes that had taken place in the overall context which would apply whichever actuary was undertaking the Valuation. Members were also given assurances regarding the assessment of the strength of the covenants for each employer in informing the primary contribution rate and deficit requirements applicable for 2017-2020.

Resolved -

That the report be noted.

152. Member and Employer Issues

Considered –

The report of the Treasurer advising of the following: that there were 4 new admission agreements and 7 new Academies during the quarter ended 30 September 2016; an analysis of the numbers of active, deferred and pensioner members in the Fund; the performance of the Pensions Administration Team; CIPFA benchmarking results for 2015/16 showing the unit cost for Pensions Administration; the updated Communications Strategy 2016/17; the outcome of the annual check required by HMRC on the growth in each person's pension scheme benefits for the 2015/16 tax year; Member training; and the arrangements for forthcoming Committee meetings and meetings with the Investment Managers.

In response to a question about outstanding IT targets from the 2015/16 Communications Strategy, officers confirmed that these would continue to be pursued as budget allowed, but that they were considered to be desirable rather than essential functions.

Members congratulated the Pensions Administration Team on its excellent performance, especially in the light of increased workload. In particular the importance of the telephone access service was stressed, given that not all scheme members would have access to broadband or be comfortable with self-service on-line options.

Resolved -

That the report be noted.

153. Budget/Statistics

Considered -

The report of the Treasurer advising on the expenditure and income position for 2016/17 to date and the cash deployment of the Fund.

The Treasurer reported that the cash flow position was broadly in line with expectations over the first 6 months of the financial year. Members were reminded that the Fund held a negative cash balance at the end of September 2016 due to investments made following Brexit, but this had now been rectified by a disinvestment from ECM of £41.9m on 10 November 2016, which would also provide sufficient cash to satisfy the Fund's requirements over the current quarter.

Members queried some of the increases in performance fees reported, and were advised that these reflected the increased out-performance by some of the Fund's managers in the recent period.

Resolved -

That the report be noted.

154. Performance of the Fund's Portfolio for the Quarter ending 30 September 2016

Considered -

The report of the Treasurer on the investment performance of the overall Fund, and of the individual Fund Managers, for the quarter ended 30 September 2016; risk indicators; the solvency position; re-balancing; and proxy voting on behalf of the Fund for the quarter ending 30 September 2016.

Geoff Dalton and Dave Lyons of Aon Hewitt summarised the excellent performance over the last three months by virtually all Fund Managers, and the underlying reasons for this. It was however not anticipated that returns would continue at the same high rates as recently experienced.

Over the last 3 years, only 2 of the Fund's managers performed below their benchmark. It was to be expected that there would be some performance below benchmark across the Fund Managers, given the diverse approach across the overall Fund, but that any performance below benchmark was kept under review.

Whilst welcoming the excellent performance and the impact on the solvency of the Fund, estimated at 93% as at 30 September 2016, Members were concerned about the potential future impact of pooling on the good progress achieved for the Fund by the Committee and its supporting officers. Members requested that information on the performance of other pool members over the last 12 months be circulated to all Committee members by email.

Information was also requested regarding changes over time in the risk indicators reported in Section 5 of the report.

Resolved –

- (a) That the investment performance of the Fund for the period ending 30 September 2016 be noted.
- (b) That information on the performance of other pool members over the last 12 months be circulated to all Committee members by email.

Appendix 1 to this report was considered in private and the public have no right of access to this. The following is a public summary of business conducted in private.

155. Equity Portfolio: Strategic Currency Hedging

Considered -

The report of the Treasurer reviewing the merits of currency hedging and considering its re-introduction for the Fund, and an accompanying confidential report from Aon Hewitt.

In response to a query regarding the impact of pooling on any decision to re-introduce hedging, the Treasurer stated his view that, as such a decision was an Investment Strategy decision, it would remain within the remit of the Pension Fund Committee even after 2018, although the operational implementation of any such policy may be impacted by the pooling arrangements.

Members noted some of the considerations for and against currency hedging and agreed to give further consideration to the matter at the Investment Strategy Review meeting due to take place the following day, and to consider a further report at the next quarterly meeting of the Committee.

Resolved -

- (a) That further informal consideration be given to the matter at the Investment Strategy Review meeting on 25 November.
- (b) To consider a further report at the next meeting of the Committee.

156. LGPS Investment Regulations

Considered -

The report of the Treasurer noting the new LGPS (Management and Investment of Funds) Regulations 2016 which came into effect on 1 November 2016, and which brought about a number of changes to the management and investment of pension fund money.

The Treasurer highlighted that the new Regulations were less prescriptive than previously, but that they did introduce new powers for the Secretary of State which some may feel concerning in terms of the opportunity to be more directive, in particular in relation to Government's desire to see Funds invest in infrastructure. In response to Members' disquiet regarding the implications of the new regulations, and especially the new powers for the Secretary of State, he stressed that the North Yorkshire Pension Fund would continue to determine its own approach through its Investment Strategy. Members stressed that their overriding responsibility continued to be towards members of the Scheme. They also expressed their concern about the recent loss of expertise within the Department for Communities and Local Government (DCLG) in relation to the Local Government Pension Scheme.

Resolved -

That the report be noted.

157. Pension Board

Considered -

The draft minutes of the Pension Board meeting held on 6 October 2016. The Chair of the Pension Board, David Portlock, highlighted the Pension Board's current interest in Internal Audit reports and undertook to make the Pension Fund Committee aware of any issues arising from this work. He also advised the Committee that Pension Board member Ben Drake was leading a review of the exercise of employer discretions on the Board's behalf.

Resolved -

That the update be noted.

158. LGPS Pooling Arrangements

Considered -

The report of the Treasurer updating the Committee on the position regarding the Government's proposal to pool the Local Government Pension Scheme's investments in England and Wales.

The Chairman reported that he and the Vice-Chairman had each attended 2 meetings of the Member Steering Group, and updated Members on the discussions at these meetings. Recent meetings had included a detailed briefing on legal matters. The Bond required by the Financial Conduct Authority (FCA) would be €10m. The structure of the new organisation was very formal and would include a Joint Committee of Chairs of Pension Funds. However it would be the Board of the Company, which would probably not include any elected Members, which would make all appointment and removal decisions on investment managers in future. It was planned that BCPP assets would be approximately 50% internally managed and 50% externally managed, covering broader areas to those currently invested in by the North Yorkshire Pension Fund. The internal management costs would be lower under the pooled arrangements, but the focus would be on net of fees performance. The payback period for the set-up costs was anticipated to average of around 6 years.

The Chairman and Tom Morrison had also attended a Local Government Pension Forum meeting where socially responsible investment had been pushed strongly.

The Treasurer reported that representatives from the Pool were meeting with the Minister today to discuss the Pool's response to the Government consultation. Despite concerns expressed at the impact of delays in receiving a response from Government, the Government has currently signalled that there will be no change in the implementation timetable.

The Chairman reported that he had spoken to the Treasurer regarding his view that that it was not ideal to bring a recommendation about entering into a pooling arrangement to either the February meeting of Council, or the AGM in May, and that it would be preferable to defer this decision until July. However, he had been advised by the Treasurer that a decision should be taken in February, even if final details needed

to be delegated to officers. It was acknowledged that Members may not feel comfortable with this. County Councillors would need to understand the basis of the decision they were being asked to take, including the consequences if they were to decide not to agree to enter into a pool. In addition, work was being undertaken to seek views from other employer members of the Fund to feed into the Council decision-making process. The Treasurers of the 12 Funds involved in the pool were due to meet shortly to test whether all can meet the February deadline for decision-making.

Other Members shared the Chairman's disappointment at the apparent passive acceptance of the pooling arrangements by other Funds, but also expressed their desire to work on a positive basis with partners in the pool. Members were reminded that the decision to join the Border to Coast Pensions Partnership (BCPP) pool was linked to it being made up of funds with a like-minded approach to investments. Members also expressed disquiet about the anticipated reduction in the extent of decision-making available to this Committee, which has always been undertaken in the best interests of the scheme's members and employers. The timetable was another area of concern to Members, alongside the costs of setting up the new Pool arrangements, accountability arrangements between the Pool and the Pension Fund Committee, and the potential conflict of interests of officers interested in applying for the new posts to be created.

The Treasurer confirmed that Members' agreement to the funding referred to in paragraph 5.3 of the report was not being sought at this meeting.

Members agreed to hold an additional meeting in January 2017 in order to debate the matter further and agree a recommendation on Pooling Arrangements to be put to the Council meeting on 15 February 2017. The Treasurer informed Members that the current advice from the Monitoring Officer was that the recommendation from this Committee would need to be channelled via the Executive.

It was also agreed that information on LGPS pooling should be included in the Members' Seminar on 5 January 2017, in order that Members are appropriately briefed in advance of the decision required to be taken at Council on 15 February 2017.

Resolved -

- (a) That the report be noted.
- (b) That information on LGPS Pooling be included in the Members' Seminar on 5 January 2017.
- (c) That an additional meeting of the Pension Fund Committee be held in January 2017 in order to agree a recommendation on Pooling Arrangements and associated documentation to be put to the Council meeting on 15 February 2017 for approval.

The meeting concluded at 1.15pm

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North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 26 January 2017 at County Hall, Northallerton commencing at 10.00 am.

Present:-

County Councillor John Weighell OBE (Chairman); County Councillors John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Roger Harrison-Topham, Patrick Mulligan and Helen Swiers.

Councillor Chris Steward – City of York Council.

Councillor Jim Clark – North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

Six representatives of the Pension Board were also in attendance.

Copies of all documents considered are in the Minute Book

159. Declarations of Interest

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

160. LGPS Pooling Arrangements

Considered –

The report of the Treasurer updating the Committee on the Government's proposals to pool the Local Government Pension Schemes investments in England and Wales and asking the Committee to recommend for approval by the Executive (and then full Council), an approach for the Council, as administering authority for North Yorkshire Pension Fund, to meet its regulatory obligations for asset pooling through joining the Border to Coast Pensions Partnership (BCPP).

The Treasurer outlined the process of passing the recommendation for the arrangement to be progressed, through the Executive meeting taking place on 31 January 2017, who could then make a recommendation to full Council, as administering authority to the Pension Fund, which meets on 15 February 2017.

The Treasurer noted that this was a major step towards meeting the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which required the 89 separate Local Government Pension Scheme Funds in England and Wales to combine their assets into a smaller number of investment pools. The Regulations required each LGPS administering authority to formulate, having taken proper advice, an investment strategy and to publish a statement of that strategy no

later than 1 April 2017, which must include the administering authority's approach to pooling investments.

Members had undertaken a number of discussions at previous Pension Fund Committee meetings in respect of potential pooling arrangements and had committed to joining the Border to Coast Pensions Partnership (BCPP) in January 2016.

The Treasurer explained that the report was required to formally to commit to BCPP and noted that each of the 12 administering authorities would be undertaking similar decisions, with each expected to have formally completed this process by 21 March 2017, with the necessary documents in place to be executed shortly thereafter.

The administering authorities, forming the BCPP pool, would then move forward with the proposals and set up the regulated asset management company, BCPP Limited, ensuring its FCA registration, appointing staff (including TUPE transfer where appropriate), finding a suitable location to operate from, and implementing the other necessary arrangement to facilitate pooling such as appointments of a depositary and custodian.

A general discussion on the proposal was undertaken and the following issues and points were raised:-

- ◆ Concern was raised at the speed in which these pooling arrangements had been developed and a Member suggested that there was a need to give a greater deal of consideration to the proposals, and their implications, before committing fully to the process. He suggested that, at this stage, a statement of intent could be put in place, rather than committing to the BCPP pool, allowing further time for due diligence to be undertaken, ensuring that this pool would meet the needs of the North Yorkshire Pension Fund and determining whether other potential pools would better meet those needs. The Chairman, whilst agreeing that it would be more appropriate to delay the process to allow such an important decision to be made, to a Council meeting where more time could be devoted to this matter, possibly after the May Elections, he emphasised the reality of the situation was that the timescales had been set by the Government and would not be changed at this stage. He considered that the Pension Fund Committee had previously committed to joining the BCPP, which was why the proposal was to be put to the County Council as administering authority.
- ◆ The Treasurer noted that the commitment to the BCPP was being co-ordinated with the other 11 local authorities involved, which was why the report was being processed at this particular stage. He also noted that the regulations required the Fund describe its commitment to pooling in the Investment Strategy Statement by 1 April 2017 and that it would be risky for the North Yorkshire Pension Fund to be outside of a pool at that date.
- ◆ A Member raised concern that should it become apparent that there was a better position, within an alternative pool, better suited the North Yorkshire Pension Fund, then commitment to the BCPP could prevent that option from taking place.
- ◆ Difficulties with the current timetable were outlined, with both Chairman and Vice-Chairman of the Pension Fund Committee unable to attend the Executive taking place on 31 January, to which the report was being submitted for referral to the County Council meeting on 15 February 2017. It was asked whether it was possible to have an additional meeting of the Executive to take account of this important matter, allowing either or both Chairman and Vice-Chairman

to attend. In response it was noted that for the matter to pass through County Council on 15 February a report would have to be ready by 8 February, therefore, it left only a very limited period for an additional Executive meeting to be called. It was noted that another alternative would be to have a special meeting of the County Council, however, that would also be highly impractical. It was suggested that the matter should be considered at the meeting of full Council on 15 February and, therefore, would be required to go to Executive on 31 January.

- ◆ A Member also expressed his concerns with the process being undertaken in respect of this report, suggesting that further time was required to be able to give the matter due diligence and to have confidence in the pooling arrangements going forward. The Chairman again emphasised that should North Yorkshire Pension Fund move away from committing to BCPP, he expected that pooling arrangements would continue, with North Yorkshire being on the outside until it was in a position to join, which would not be beneficial.
- ◆ A Member raised concerns regarding the adoption of the proposed investment vehicle as part of the pooling arrangement and considered that this would not be conducive to the current investment strategy of North Yorkshire Pension Fund. He suggested that it would be better for the Pension Fund to continue to utilise its existing Fund Managers, a number of which had produced significant returns for the Fund in recent years, rather than having to use the Fund Managers appointed through the pool. In response the Treasurer noted that the pool would develop a significant number of Investment Managers, with both internal and external investment opportunities created, with a number of sub-funds in place.
- ◆ Another Member concurred with the issues raised previously with regards to the process appearing to be rushed. He emphasised that previous decisions had been the subject of special Executive meetings and considered this major issue to be worthy of such arrangements. He noted the decision was of huge significance, financially, to members and employers who formed the North Yorkshire Pension Fund and would be affected by this proposal, going forward. He considered it inappropriate that neither the Chairman nor Vice-Chairman would be able to represent the Pension Fund Committee at the Executive meeting, which was why an additional meeting should be arranged. In response the Chairman considered that the arrangements for the Executive meeting were difficult but considered that the main decision was being made by the full County Council. He did not consider that there was a need, therefore, to arrange a special meeting of the Executive. He noted the concerns raised by Members, however, and had sympathy with the issues they outlined, but emphasised the practicalities of the timetable faced in relation to this matter.
- ◆ A Member highlighted the risks being faced by the North Yorkshire Pension Fund in relation to joining the pooling arrangements and stressed the need for care in moving forward with these and the need to ensure that those risks were being considered in full.
- ◆ The Chairman highlighted paragraph 3.44 of the report to be submitted to the Executive regarding the control the Pension Fund Committee would retain over its contractual arrangements with Investment Managers, and the decision of how much to invest in funds managed by BCPP, going forward, and he asked for clarification in respect of that matter.

- ◆ The Assistant Chief Executive (Legal and Democratic Services) explained the suite of legal documents required for implementing the proposed pooling arrangements. He noted that this would allow discretion for those within the pool to obtain investments from outside of the pool, if there was no capacity to meet a specific investment opportunity within the pool, however, he emphasised that the majority of the investments would be expected to be with BCPP. He stated that, should it be deemed to be necessary for the majority of the investments to be made outside the pool, by one of the partners, it would be seen as the pool not working appropriately and the situation would have to be addressed.
- ◆ The Head of Commercial and Investments, Strategic Resources, explained how officers were attempting to establish an investment body that was appropriate for the pool, which would also meet the Government's requirements. It was expected that this investment vehicle would provide investment opportunities for all of the asset classes currently invested in by the various Pension Funds involved with the pool. Some of the established contracts, that North Yorkshire Pension Fund had with existing Fund Managers, would not be transferrable to the new pool and those would need to be managed by the Pension Fund Committee. It was expected that similar opportunities would then be available in time, for new investments in those asset classes within the pool. Where opportunities were unavailable it was considered appropriate that the Pension Funds would be able to continue with those investments, outside of the pool, but again it was emphasised that the majority of investments would be within the pool. He noted that the transitional arrangements had still to be agreed in full and further consideration would be given to those.
- ◆ A Member considered that the pooling arrangement would not provide the Pension Fund Committee with the level of opportunity provided currently in terms of meeting its investment strategy, with direct contact with Fund Managers giving the necessary opportunity to oversee those investments and deal directly with those carrying out those investments. Another Member also expressed concern that some of the Fund Managers that the Pension Fund Committee currently dealt with could be lost, as the pooling arrangements may not offer them within those asset classes. There was a potential, therefore, for the North Yorkshire Pension Fund to suffer a fall in its investments through moving into the pooling arrangement. In response the Head of Commercial and Investments, Strategic Resources explained the draft timetable for transition of assets over the next three years. He explained the development of asset classes through sub-funds appointed by the pool, which would be designed to fulfil the investment strategies of the partners involved. It was emphasised that the plan for the transition of assets from the various Funds had not yet been finalised and the concerns raised by Members would be discussed with the other partner Pension Funds, entering into the pool, with a view to addressing some of those concerns.
- ◆ A Member asked whether, should agreement be given to formally join BCPP, and it be subsequently determined that the pool was not appropriate for the needs of North Yorkshire Pension Fund, the arrangements could be withdrawn from. In response, the Assistant Chief Executive (Legal and Democratic Services) stated that this could be done, however, there would be financial implications to doing that.
- ◆ Members considered the financial benefits of joining the pooling arrangements against those of what had been achieved by the North Yorkshire Pension Fund through the perusal of its own investment strategy in recent years.

- ◆ A Member asked whether other partners within BCPP had concerns in respect of the pooling arrangements. In response it was stated that there were some concerns, particularly amongst Treasurers, with regards to the transition arrangements, however, the majority of the other partners appeared comfortable with the arrangements going forward.
- ◆ The Treasurer indicated that, broadly, Members had three options in terms of how to move forward on this matter, which was as follows:-
 1. Sign up to the BCPP and accept compromises were inevitable, but note that the approach could be influenced as part of the team;
 2. Consider joining another pool. This would require significant time and willingness on the part of another pool to accept another member;
 3. Elect to not join any pool and risk the Secretary of State exercising powers of direction.
- ◆ A Member referred to another pool which was considering an approach that allowed the Pension Funds involved to continue with their investment strategies in line with current practices. He suggested that this would be an approach that would better suit the needs of the North Yorkshire Pension Fund. The Treasurer noted that this pool was yet to receive a response from the Minister as to whether the proposal was acceptable. He was unsure at this stage as to whether such an arrangement would be allowed. The Member suggested that, should the Minister be agreeable, then the issue of transition arrangements would be eliminated. It was noted that, geographically, this pool would be a difficult group to work alongside, with co-ordination taking place much further afield than that proposed for BCPP. It was also stated that timing would be an issue, as North Yorkshire Pension Fund had already aligned and drawn up documentation in respect of joining BCPP and would have to recommence that process with the alternative pool, which again would take time to put in place. A Member suggested that there was a duty of care for the Pension Fund Committee in terms of ensuring that the most appropriate pool for the Fund was being joined. Another Member suggested that, given more time, it would opt to not join any pool at this stage, to allow further opportunities to be considered as to whether other pools could better meet the requirements of the North Yorkshire Pension Fund.
- ◆ A Member stated that the major difficulty he had with the proposed arrangement was the loss of the ability for the Pension Fund Committee to select Fund Managers, giving that over to only having 1/12th of a say in who those Managers would be. He suggested that the Pension Fund Committee had, over the years, determined the most appropriate Managers to meet the Investment Strategy through direct conversation and negotiation and was worried that the loss of this would affect the investment position. The Chairman noted that the power for the selection of Investment Managers, within the pool, did not lay with the Joint Committee but with the Chief Investment Officer and Investment Team, therefore, there would be no direct influence from the Pension Fund Committee in relation to that.
- ◆ It was again suggested that, at this stage, the North Yorkshire Pension Fund could be in a better position by not aligning itself to any of the pools, and entering into further negotiations to determine which of the available pools, if any, would best suit its needs. The Treasurer and the Assistant Chief Executive (Legal and Democratic Services) suggested that Members should be wary of adopting this approach as it would be likely that the Secretary of

State would be alerted to the fact that the North Yorkshire Pension Fund was not aligned to a pool.

- ◆ It was asked whether the regulations outweighed the fiduciary duty of Pension Fund members. In response the Assistant Chief Executive (Legal and Democratic Services) emphasised that legislation outweighed those duties and that the law had to be complied with. Should the North Yorkshire Pension Fund not comply the Secretary of State could undertake the fiduciary duty on the Fund's behalf.

It was suggested that the Committee should focus on the report that was proposed to be submitted to the Executive on 31 January 2017, which would be used to submit a proposal to full Council on 15 February 2017. Section 7 of that report outlined the recommendations that would form that proposal and Members were asked to give consideration to those and determine any amendments that they would wish to make before submitting to the Executive. The Treasurer stated that, should the recommendations be followed, this would provide the necessary agreements for the North Yorkshire Pension Fund to become a member of the Border to Coast Pensions Partnership, subject to agreement by the full County Council. He emphasised that this stage of the process committed the North Yorkshire Pension Fund to becoming a member of BCPP and would enable the establishment of the formal partnership.

Members undertook a further detailed discussion, in relation to the report to be considered by Executive, with the following issues and points being raised:-

- ◆ Issues relating to the initial financial commitment were outlined. It was noted that initial costs for joining the pool were in the region of £350k. North Yorkshire Pension Fund was also required to make an investment in the region of £725k as part of the regulatory capital designed to support the solvency of the company which was required of FCA regulated businesses. There would be on-going costs for the operation of the pool in terms of transition arrangements, the setting up of sub-funds and the establishment of a staffing structure, to which the North Yorkshire Pension Fund would have a 1/12th commitment. It was noted that should the North Yorkshire Pension Fund pull out of the pooling arrangements, before transition, the remaining members of BCPP would be required to pay back the £725k regulatory capital. It was also emphasised that should the North Yorkshire Pension Fund withdraw from the pool following transition then the costs to the Fund would be substantially higher.
- ◆ Clarification was provided in relation to Government expectations in terms of Pension Funds being part of a pool. Pools were expected to be operational from 1 April 2018 and initial check points, as to how that was progressing, would be taken in Spring 2017 and Autumn 2017. BCPP would report back on the current position when requested by the Secretary of State. It was noted that the final decision of each of the administering authorities of the Pension Funds, which would make up BCPP, was expected by 21 March 2017. Meetings of the Member Steering Group had been arranged for March 2017 and the first meeting of the Shareholder Group was expected to take place on 25 April 2017.
- ◆ In view of the timetable outlined a Member asked whether there was still time to consider other pool proposals, to determine whether that would be more in line with what was required by North Yorkshire Pension Fund. In response the Treasurer emphasised that other pools had not been considered and the proposed pool arrangement referred to had not been agreed by the Secretary of State as yet and that the Pension Fund Committee had committed to being

part of the BCPP. He stated that, pragmatically, it was difficult to look at other pooling arrangements whilst working within the tight timescales for developing the involvement with the BCPP. The Chairman stated that consideration had been given to another pooling possibility, however, that had been unsuitable to the requirements of the North Yorkshire Pension Fund. He noted that there were other issues to take account of in terms of other pools, which may also be of concern, however, the current commitment to BCPP and the issue of being outside pooling arrangements, when they were expected to commence, were overriding factors.

- ◆ A representative of the Pension Board, whose Members had been invited to this meeting, raised concerns regarding the lack of representation within the structure for the Trade Unions, employers and Pension Scheme members. He considered it appropriate that these areas be represented within the proposed governance framework for the BCPP.
- ◆ The governance framework for BCPP was discussed and it was noted that the Shareholder Board would have one representative from each of the Pension Funds, however, the Joint Committee could have representation up to 14, which could provide possible scope for additional representation from the groups outlined. It was noted that the Joint Committee would have more of a role on the transition arrangements and would feed back into the administering authorities, with recommendations for approval, in terms of investment management. Each Pension Fund Committee would also receive feedback from its representative shareholder on the Shareholders Board. The company itself would be run by a Board of Directors which would comprise of a non-executive chair and two other non-executive directors, with up to three executive directors. These would be appointed by the agreement of all the administering authorities as shareholders. It was again stated that BCPP would provide a range of funding opportunities from which each individual Pension Fund Committee would decide where to make its investments.
- ◆ A Member suggested that shareholder meetings were likely to be held in public, therefore, representations could be made by the groups outlined at those meetings. In response it was noted that, at this stage, some of the interim meetings had been held in private, and there was a need to establish as to what public rights of access would be allowed to those meetings. A Member considered that this was a fundamental issue that required addressing. It was explained that certain issues would be subject to confidentiality, however, there may be a way forward for allowing access to those meetings for Trade Union, employer and member representatives.
- ◆ A Member raised an issue of concern regarding shareholders having to reach unanimous decisions on a number of issues, to adhere to Regulation 12 of the Public Contracts Regulations 2015 as the company would be Teckal compliant. In relation to that it was noted that the possibility of having 75% agreement, rather than 100% agreement for shareholder decisions was being explored, to ensure that arrangements could be carried out in the most practical manner possible.
- ◆ Members noted that the Joint Committee would have to submit recommendations back to each of the Pension Fund Committees for some decisions to be made, which would make the decision-making process potentially difficult.
- ◆ It was clarified that some existing investments would not be able to be moved directly into the pool under the arrangements currently held by North Yorkshire

Pension Fund, however, similar, or the same arrangements may be available within the asset class in the pool in due course. Again it was clarified that the Pension Fund Committee would not have direct access to Fund Managers when the transition had taken place, unless they had particular investments that could not be operated within the pool, and that the majority of their investments would be managed by the pool's investment team. It was emphasised that it would be possible to continue with some of the investments that were already in place, should they be available through the pooled arrangements, through alterations to the terms of the contracts currently in place with North Yorkshire Pension Fund.

- ◆ Issues around the possibility of other, large scale groups moving in to takeover BCPP, when European legislation was removed, were discussed. The Treasurer and the Assistant Chief Executive (Legal and Democratic Services) stated that the stakeholders of the company, the 12 representatives of each of the Pension Funds, would be able to stop that from taking place.
- ◆ It was emphasised that transition arrangements still had to be determined in detail and a number of current contractual arrangements would need to be changed before this took place. In view of this, should Members consider it appropriate to leave BCPP, it would be far more cost effective to do so before the transition of funds had taken place. In relation to this a Member suggested that he would prefer the Pension Fund Committee to be able to state how transition took place rather than be dictated to by BCPP. The Treasurer emphasised that a collective agreement for transition would be required, with all parties having input into how that would take place, as it was recognised that this was an area of concern for those involved. He noted that that the debate on transition had yet to take place and, therefore, the concerns expressed by Members would be fed into that debate. A Member suggested that the letter from the Minister was clear that he expected all assets in all classes to be pooled, with management of the investments delegated to the pool in full. The Treasurer stated that there was some room for manoeuvre, however, Members should be fully aware that the arrangements would require the transition of the majority of funds to be controlled within the pool. He reiterated, however, that there was still an opportunity to highlight the concerns of Members in terms of negotiating how the transition would take place. The Chairman reassured Members that there would be sufficient sub-funds within the pooling arrangements to allow a substantial choice of where investments could be directed within each asset class. It was acknowledged that this position did not allow for as many opportunities to invest as the current position.
- ◆ It was noted that the Pension Fund Committee should determine which of its Members would represent them at shareholders meetings, and it would be appropriate for substitute members to be in place. The nomination would be submitted to Executive, from the Pension Fund Committee, and subsequently to County Council as administering authority for the North Yorkshire Pension Fund as described in the current Constitution. It would be ensured that someone who was able to represent the views of the Pension Fund Committee was nominated as shareholder.
- ◆ Members suggested that there should be an additional recommendation to those within the report to Executive relating to the transitional arrangements, to ensure that the Pension Fund Committee had a chance to clarify the investment position before terminating any existing Fund Manager contracts and entering into new ones. It was also suggested that a letter be submitted to the other partners entering into the BCPP arrangements, from the Pension

Fund Committee, outlining the concerns regarding the transitional arrangements and also other issues that had been raised during this meeting.

- ◆ A Member noted the issues raised earlier in the meeting regarding representation from Trade Unions, employers and Pension Fund members and suggested that any submission to the other partners should seek to address that issue also.
- ◆ It was noted that the report had still to be considered by both Executive and full County Council, and it could be that the two bodies combined could amend the final proposal to include further details in respect of the North Yorkshire Pension Funds membership of the BCPP, including some of the issues raised by Members at this meeting. It was stated that the documents provided within the pack of information were still evolving, as BCPP was not yet a legal entity and arrangements are dependent upon the proposals submitted by the administering authorities.
- ◆ In relation to the recommendations authorising the Assistant Chief Executive (Legal and Democratic Services) and the Corporate Director – Strategic Resources to finalise arrangements for the creation of BCPP, as set out in recommendation 6 and 7, it was suggested that these be carried out in consultation with the Pension Fund Committee.
- ◆ A Member noted the forthcoming Council Elections and the effect that could have on the dynamic of the BCPP. It was acknowledged that this was an unknown position at this stage.
- ◆ A Member requested that the comments, concerns and risks to the North Yorkshire Pension Fund, highlighted by Members at this meeting be reflected to the Executive and suggested that Members of the Pension Fund Committee address the full County Council meeting in relation to those concerns, when the report was considered on 15 February 2017.
- ◆ A Member highlighted his concerns in respect of the overall pooling process. He stated that he had been on the Committee for over 12 years and, although he did not have the expertise of some of the Members, he represented the views of the interests of those had a direct relationship with the Pension Fund and the Council Taxpayer. He stated that he had huge respect for the other Members and officers who served the Pension Fund Committee and recognised that others also had difficulty with what was happening. He suggested that there had not been sufficient time given to consider alternatives and that the North Yorkshire Pension Fund was being forced into a position that it did not want to be in. In view of that he could not support the recommendations, emphasising that this was not a political statement, but was a genuinely held view. The Chairman acknowledged the view held by the Member but also highlighted the risks of not complying with the regulations.
- ◆ In response to the concerns and issues raised it was stated that officers would continue to monitor the progress of other pools and report back to the Pension Fund Committee on that matter, however, it was emphasised that the processes involved in working up an alternative proposal would take some time to develop. Concerns relating to the transition planning were also recognised and further details in relation to those concerns would continue to be submitted into the Pension Fund Committee in an attempt to try and address those.

Resolved –

- (i) That approval be given to the report attached to the main report, for consideration by the Executive on 31 January 2017, with the intention that this was then considered by full Council, acting as administering authority for the North Yorkshire Pension Fund, on 15 February 2017;
- (ii) That approval be given to the recommendations set out in Section 7 of the report to the Executive, to read as follows:-
 - “7.1 The Executive recommends to Council, as the administering authority for the North Yorkshire Pension Fund, that it meets the regulatory requirements to pool Pension Fund assets by:
 - 1. agreeing to be a member of the Border to Coast Pensions Partnership and to adopt its arrangements, by:
 - i entering into the Inter-Authority Agreement (Appendix 3) between the Council and the Administering Authorities of the other Pool Funds
 - ii entering into the Shareholder Agreement (Appendix 4) between the Council and the Administering Authorities of the other Pool Funds and Border to Coast Pensions Partnership Limited
 - iii agreeing the Articles of Association to be adopted by Border to Coast Pensions Partnership Limited (Appendix 5)
 - iv approving the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 of in accordance with and to carry out the functions as set out in the Inter-Authority Agreement (Appendix 3)
 - 2. approving the subscription by the North Yorkshire Pension Fund of 1 Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited
 - 3. referring the nomination of the shareholder to the Executive
 - 4. approving the subscription by the North Yorkshire Pension Fund for such number of Class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Council contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined in by the requirements of the Financial Conduct Authority
 - 5. appointing the Chair of the Pension Fund to represent the Council on behalf of the Fund at the Border to Coast Pensions Partnership Joint Committee meetings”
- (iii) That recommendations 6 and 7 be altered to include reference to consultation with the Pension Fund Committee to read as follows:-
 - “6. authorising the Assistant Chief Executive (Legal and Democratic Services to make the consequential changes required to the Constitution to reflect these new arrangements and report back to the Pension Fund Committee;

7. authorise the Assistant Chief Executive (Legal and Democratic Services) in consultation with the Corporate Director – Strategic Resources to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions and report back to the Pension Fund Committee.”
- (iv) That an additional recommendation be added relating to transitional arrangements, delegating authority to the Pension Fund Committee to determine the transition plan and to clarify any arrangements regarding the termination of Fund Manager contracts and entering into new contracts;
 - (v) That consideration be given to submitting a letter to the other BCPP partners setting out the concerns of the Members of the North Yorkshire Pension Fund Committee, as outlined at this meeting.

County Councillor Blackie requested that his vote against the recommendation be recorded.

The meeting concluded at 3.05 pm.

SL/JR