

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 23 February 2017 at County Hall, Northallerton commencing at 10.00 am.

Present:-

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

Councillor Jim Clark – North Yorkshire District Councils.

Councillor Chris Steward – City of York Council.

In attendance - County Councillor Carl Les.

Apologies - County Councillor John Blackie submitted his apologies.

There were four members of the public present.

Copies of all documents considered are in the Minute Book

161. Minutes

Resolved -

That the Minutes of the meeting held on 24 November 2016 and the Special Meeting held on 26 January 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

162. 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.

163. Public Questions or Statements

Mr Mark Fletcher submitted a public question in relation to fossil fuel investments, highlighting his concerns regarding these, with figures he had obtained from September 2015. He highlighted the ethical concerns raised regarding these types of investments, taking account of climate change. He also highlighted the risks involved in these types of investment, with emphasis on environmental, social and financial risk.

He suggested that the Pension Fund's fossil fuel investments were contributing to climate deterioration and environmental injustice, and were not compatible with the international agreement as a result of the Paris Summit on Climate Change 2015 and, more locally, with projects and programmes outlined in the County Council's Environment Action Plan.

He considered that the fossil fuel investments were increasingly risky and would not continue to provide the returns that investors and Fund Managers might expect over the next generation. This would affect communities in North Yorkshire and beyond. He asked whether Pension Scheme members and other stakeholders had been made aware of these risks.

He suggested that the Pension Fund Committee should begin to divest from its fossil fuel holdings and develop a carbon free investment portfolio, reinvesting in renewable energy technology and its growing applications in transport, housing and commercial building. He considered that this would help to increase Pension Fund resilience, show the way in reducing investment in fossil fuels, support the development of renewable energy technology, protect communities in North Yorkshire and beyond and contribute to a more healthy and sustainable society overall.

He asked what would have to be in place for the Pension Fund Committee to make a policy commitment to begin to divest as described above. He stated that he and other groups were willing to work with the Pension Fund Committee towards a policy commitment to divest and reinvest.

In an initial response to the issues raised the Chairman of the Pension Fund Committee stated that Pension Funds were aware of the matters highlighted, with discussion of these undertaken at Pension Fund Forum meetings. He emphasised that the Pension Fund Committee had a fiduciary duty to members of the Scheme and employers, which was reflected in the investments undertaken, but noted that there had been some diminishing returns in terms of fossil fuel investments, globally, in recent times. He noted that the current policy, which was continually under review, was to invest in areas where the maximum return could be achieved for the Pension Fund. He noted that the Committee had undertaken debates in the past regarding ethical issues and highlighted the difficulty in identifying investments that did not stray into areas that had ethical concerns. He also noted that the recent move towards pooling investments would alter the influence that the Pension Fund Committee had on who to invest with, which in turn could also affect the position in respect of this.

The Treasurer highlighted the Investment Strategy Statement that was due to be considered later at the meeting, which set out the principles behind the investments made by the North Yorkshire Pension Fund for which North Yorkshire County Council was the administering authority. He considered that the statement best set out the responsibilities in terms of investments for the Committee, in response to the issues raised.

The questioner stated that it was unclear as to how dis-investment was likely to take place and reiterated that he and his group would be willing to help with that. He noted that there was a growing campaign within North Yorkshire for this dis-investment to take place.

The Chairman emphasised that dis-investing and reinvesting was a costly process, which could be detrimental to the investment position of the Fund. He also reiterated the position in terms of ethical investments and determining those.

164. Triennial Valuation 2016

Considered -

The report of the Treasurer updating Members on the progress of the 2016 Triennial Valuation and asking them to approve the Funding Strategy Statement.

The Treasurer presented the report and the following issues were highlighted:-

- ◆ An explanation was provided of subsumption agreements for some employers, which was where a guarantor would agree to subsume the assets and liabilities of the employer should they leave the Fund. It was considered this was a much stronger guarantee to have in place.
- ◆ A number of employers had requested to phase in their rate increases, which in most cases had been over a three year period. In some cases, however, dependent upon the financial position of the employer, the period had been increased up to a maximum of 12 years, which was half the maximum deficit recovery period allowed for any employer.
- ◆ The Treasurer noted that larger employers had been provided with an option to pre-pay their deficit amount, either three years or annually. Most of these employers had taken up the three year option. All employers had been given the opportunity to make additional lump sum deficit payments and a small number of employers were considering this.
- ◆ The Treasurer stated that, with negotiations still underway with some employers, especially those in the process of getting subsumption agreements in place, it was suggested that Members delegate responsibility for approving contribution rates to the Treasurer and his officers.

Members undertook a discussion of the report and the following issues and points were raised:-

- ◆ Clarification was provided in relation to the risk placed on the Pension Fund of allowing employers to phase in rate increases, the approach to assessing the financial position of employers, and in each case the suitability of phasing in arrangements.
- ◆ It was noted that the Funding Strategy Statement had been provided by the Actuary.

Resolved -

- (i) That the Funding Strategy Statement, provided as an Appendix to the report, be approved; and
- (ii) That the responsibility for approving the schedule of contribution requirements be delegated to the Treasurer as outlined in paragraph 4.8 of the report.

165. Member and Employer Issues

Considered -

The report of the Treasurer providing Members with information relating to membership movements, performance of benefits administration, as well as related events and activity over the year to date as follows:-

- (a) Admission Agreements and new Academies.
- (b) Membership Analysis.
- (c) Administration Performance.
- (d) Member Training.
- (e) Meetings Timetable.

The Treasurer presented the report highlighting the following:-

- ◆ A request from City of York Council for approval to be given for an admission agreement to be created to allow the continued access to the LGPS for staff working in the City of York Council's Music Service. A report was included as Appendix 2 to the report.
- ◆ He also outlined that the performance of the Pensions Administration Team which remained stable during the quarter detailed.

In their discussion of the report Members raised the following issues and points:-

- ◆ It was clarified that the data cleansing exercise had virtually been completed for the year end 2015/16, in line with what was detailed in the report.
- ◆ It was noted that North Yorkshire Pension Fund compared its performance, in terms of the Pensions Administration Team, with other Local Government Pension Funds, through the relevant benchmarking club. It was noted that the Team continued to be within the top level of performers in that field. The Treasurer noted that the key challenge in relation to performance was communication.

Resolved -

- (i) That the contents of the report be noted;
- (ii) That the request for an admission agreement to be created to allow the continued access to the Local Government Pension Scheme of staff working in City of York Council's Music Service, as detailed in Appendix 2, paragraph 2.2, of the report, be approved.

166. Budget/Statistics

Considered -

The report of the Treasurer highlighting the following:-

- (a) The expenditure/income position to date for 2016/17.
- (b) The cash deployment of the Fund.
- (c) The proposed 2017/18 budget.

The Treasurer presented the report highlighting the following:-

- ◆ Details of the lower than forecast cash surplus for the year were outlined, together with the reasons for that.
- ◆ The 2017/18 budget had been developed in respect of the experience of the last seven years. A major impact on the budget would be the increase in contributions forecast for 2017/18 due to employers paying their deficit, a sum of around £40m, three years in advance, in April 2017. It was noted that opportunities to invest the £40m would be considered, however, obtaining the sum in advance would see lower monthly deficit contributions for the next three years.

Members undertook a discussion of the report and the following issues and points were raised:-

- ◆ Issues around the investments with Threadneedle, Hermes and L&G were discussed. Details as to why the investments had, at this stage, predominantly taken place with Threadneedle, were provided.
- ◆ Clarification was provided in relation to the calculations of performance related fees including that they are unaffected by currency exchange rate movements. It was noted that the forecast of performance fees was based on a partial year's performance and it was emphasised that these could vary significantly during the year.
- ◆ Issues around the pre-payment of budget deficit contributions by some employers and how the cash surplus was to be addressed were highlighted. Clarification was provided in respect of those matters.
- ◆ It was noted that the £350k costs related to the transfer to pooling arrangements were not fully reflected in the budget and the Treasurer stated that he would amend the budget document to reflect that position. It was noted that the £350k contribution would be made over a period of time.
- ◆ Issues around the pooling arrangements, potential profits and taxation were discussed.
- ◆ A Member queried the cost of the custodian fees and whether these could be reduced. In response it was suggested that the pooling arrangements would see economies of scale having an effect on costs such as these.
- ◆ In terms of performance fees it was noted that these were paid in relation to performance over an extended period of time, which ensured that the peaks and troughs were fully accounted for. It was suggested that a report be submitted to the Committee, as had been done previously, providing an update on fees and charges in relation to the Fund's investments.

Resolved -

- (i) That the 2017/18 budget, subject to an amendment to reflect the £350k pooling charges, be approved; and
- (ii) That the contents of the report be noted.

167. Performance of the Fund's Portfolio

Considered -

The report of the Treasurer on the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 31 December 2016.

Representatives of the Fund's Investment Advisers, Aon Hewitt, provided a summary of the performance of the Fund's portfolio during the third quarter, highlighting the following:-

- ◆ The absolute overall return for the quarter (+1.7%) was below the customised benchmark for the Fund by 1.4%, the 12 month absolute rolling return was +18.5%, 1.5% below the customised benchmark. The Fund had increased in value, since 30 September 2016, by £48.7m
- ◆ Performance of the specific Fund Managers was detailed, including the relative performance.

- ◆ It was emphasised that the markets remained volatile and the issues creating that volatility were detailed.

A detailed discussion of the report was undertaken by Members and the following issues were highlighted:-

- ◆ Factors that had contributed to the current solvency position of 97% for the Fund were detailed.
- ◆ The performance of US markets following political changes there and how that was affecting markets globally.
- ◆ The potential for the US to protect its own markets and how that could lead to volatility in global markets.
- ◆ Consider changes to the Investment Strategy to protect the 97% solvency level and eliminate some of the volatility within the Fund.
- ◆ A discussion took place in relation to the risk associated with having a large proportion of investments with one Fund Manager. The representatives of Aon Hewitt highlighted the good performance of the manager in recent years which had contributed significantly to the current solvency position and the excellent reputation of the North Yorkshire Pension Fund. It was emphasised that there was no reason to believe that this manager would not continue to provide excellent returns for the Fund, however, it was recognised that there was an element of risk in holding a significant proportion of investments with them. Members' highlighted issues relating to the investment, which had a potential for short term volatility in certain market conditions. It was emphasised, in response to the issues raised, that the Pension Fund Committee would give consideration to its Investment Strategy in the coming months and further consideration of the issues raised would be developed through workshops.

Resolved -

That the investment performance of the Fund for the period ending 31 December 2016 be noted.

168. Governance Arrangements

Considered -

The report of the Treasurer:-

- (i) Seeking the Committee's approval of the new Investment Strategy Statement; and
- (ii) Presenting to the Committee the findings of the Independent Professional Observer on the Fund's governance arrangements.

Investment Strategy Statement

The Treasurer reminded Members of the LGPS (Investment and Management of Funds) Regulations 2016 which came into force on 1 November 2016 which required that administering authorities maintain and publish an Investment Strategy Statement (ISS) no later than 1 April 2017. This replaced the previous requirement to maintain a Statement of Investment Principles (SIP).

Details of the ISS were attached as Appendix 1 to the report and it was noted that this had been prepared in accordance with the DCLG's "Guidance on Preparing and Maintaining an Investment Strategy Statement".

The Treasurer noted that, as pooling arrangements developed or examples of best practice emerged, it was anticipated that amendments would be required, therefore, the ISS was currently a fluid document and it was expected that further updates would be brought to the Committee for approval at the 6 July 2017 meeting.

Members undertook a discussion of the report and the following issues and points were raised:-

- ◆ It was noted that the Investment Strategy Statement reflected the position of the Pension Fund investments as of now and, therefore, did not have specific reference to infrastructure investments. It was reiterated that the document was recognised as being fluid and could be altered depending on circumstances going forward.
- ◆ Members discussed the public question, raised earlier in the meeting, in the context of the Investment Strategy Statement. It was noted that the Fund currently had investments of around 4-5% in oil/mining/associated machinery and equipment, the precise amount dependent upon how that sector was defined. The difficulty relating to identifying purely ethical investments was again outlined as it was easy to identify companies in any sector where there had been issues. It was considered that the regulations and guidance for the LGPS were appropriate to ensure that investments carried out took environmental, social and governance issues into account. Public perception was also a factor in determining an ethical approach to investments. It was considered inappropriate for the Pension Fund Committee to be led by, rather than have consideration of ESG issues, over financial issues.

Governance Compliance

The Independent Professional Observer for the Fund, Peter Scales, attended the meeting and presented his report on current governance compliance arrangements for the Fund and provided comments on the implementation of pooling arrangements.

A summary of the issues raised within his report highlighted the following:-

- ◆ He had reviewed the business and minutes of Committee meetings since July 2015 and was satisfied that governance standards were being maintained and improved.
- ◆ He noted there had been significant regulatory changes affecting the governance arrangements which were in the process of implementation.
- ◆ He considered that the Pension Board was operating effectively and in line with its responsibilities.
- ◆ In terms of the forthcoming pooling arrangements he recognised that these represented challenges in establishing a workable governance structure for the future, integrating the Committee's existing responsibilities, with those in relation to the BCPP and those relating to the Pension Board.
- ◆ He recommended that strategy and policy documents and governance arrangements were kept under review, as the new pooling arrangements were finalised, and the process of implementation moved forward.

- ◆ He also recommended that the Pension Board worked with the Committee and officers to both check and ensure compliance with new regulations and guidance issued over the past six months.

A discussion of the report was undertaken and the following issues and points were raised:-

- ◆ It was noted that, at this stage, it was not clear how governance arrangements were developing for the other investment pools. It was clear that there were some issues, particularly in relation to the reporting back to Pension Fund Committees/Pension Boards and whether those arrangements would satisfy the requirements of the Members involved. It was considered that these matters would begin to emerge as pooling arrangements were agreed and governance arrangements were put in place.
- ◆ Issues around the Pension Board's work programme and how the Pension Fund Committee could be utilised in assisting to steer that were raised. Mr Scales stated that he was satisfied that the Pension Board and Pension Fund Committee would continue to develop arrangements to enabled them both to undertake their specific roles within the structure, whilst working together.
- ◆ A Member sought information in relation to the establishment and governance arrangements in place for the Local Pensions Partnerships Pool (LPP), together with the remit for that pool. Mr Scales provided details in response to the Member's question insofar as he was aware.

Resolved -

- (i) That, subject to an alteration to the figures in paragraph 4.3 of the Investment Strategy Statement, so that it reads "The 2016 Triennial Valuation was prepared on the basis of an expected real return on assets of 5.9% over the long term, being a nominal return of 3.9%, assuming CPI inflation to be 2%", the Investment Strategy Statement be approved; and
- (ii) That the report of the Independent Professional Observer be noted.

169. LGPS Pooling Arrangements

Considered -

The report of the Treasurer updating Members on progress towards the Government's announced proposal to pool the assets of LGPS funds.

The report noted that approval was given to the North Yorkshire Pension Fund joining the Border to Coast Pension Pool (BCPP) at the meeting of the County Council, as administering authority, held on 15 February 2017. It was expected that all of the administering authorities for the BCPP partner funds would have approval to proceed in place by 22 March 2017.

Further to County Council's approval, it was noted that a slight amendment to the recommendation was agreed relating to legal documentation being returned to the Pension Fund Committee for final approval, before that was signed off, in terms of the arrangements for BCPP. With that in mind, an additional meeting of the Pension Fund Committee would need to be called in the future, when the documentation was in a position to be considered.

A discussion of the report was undertaken and the following issues and points were raised:-

- ◆ Members thanked the Chairman for his letter to the Pension Funds joining BCPP, and the issues raised within that, as requested at the previous meeting of Pension Fund Committee.
- ◆ A Member noted the reason for the amendments to the recommendation that came through full County Council. He indicated that he had some concerns regarding initial legal correspondence that had been generated in respect of the establishment of BCPP and considered it appropriate that the Pension Fund Committee was able to review the arrangements. Members agreed that it was appropriate that they had sight of the finalised documentation.
- ◆ Issues around the governance arrangements for BCPP were considered by Members, with issues around how the body could develop, going forward, and the potential effect on Teckal of the decision to leave the European Union. In response to the issues raised the Assistant Chief Executive (Legal and Democratic Services) noted that, as things stand, the body would be operated by 12 public sector stakeholders and would progress in that manner. In terms of the Teckal he stated that this had now become embedded in English legislation and was likely to remain in place, despite the vote to leave the European Union, however, it was noted that there were issues of risk relating to the “Brexit” vote which would be taken account of through the legal documentation being developed.
- ◆ The process of developing and agreeing the legal documentation required for the establishment of BCPP and the Committee’s involvement in that process was discussed. It was noted that the logistics of undertaking this were fairly complex, particularly as each administering authority was also undertaking the same process and agreement had to be pulled together before the final arrangements could be put in place. It was emphasised that the timetable for creating this was challenging and that it would be appropriate to allow the Treasurer and the Assistant Chief Executive (Legal and Democratic Services) to undertake the remaining in-depth work on the documentation, including contact with Pension Fund Committee outside of the meeting environment, with a special meeting being arranged when the documentation was in a position to be given final consideration.
- ◆ Concern was raised regarding the recruitment framework being put in place in terms of executive and non-executive positions for the pool, but it was emphasised that, due to the short timeframe, recruiting the Chief Executive and the Chairman at the same time was necessary.
- ◆ Members noted that it was highly probable that alterations to the legal documentation, and process being undertaken, in the development of BCPP, would be required, as this moved forward, and that it was appropriate that the Treasurer and the Assistant Chief Executive (Legal and Democratic Services) took these issues forward, keeping Members informed, with a meeting of the Pension Fund Committee to be called at short notice, in the near future, to consider the final position.

Resolved -

That the report be noted and the progression of the legal documentation, for the North Yorkshire Pension Fund’s involvement in BCPP, be undertaken as outlined above.

170. Pension Board

The Chair of the Pension Board provided a verbal update in respect of the meeting held on 26 January 2017 and a copy of the draft Minutes from that meeting were provided for Members' information.

The Chairman of the Pension Board highlighted the following in relation to that meeting:-

- ◆ A number of issues raised at today's Pension Fund Committee meeting were also considered at the Pension Board meeting, with LGPS pooling arrangements being considered extensively.
- ◆ It was agreed at the Pension Board meeting that a representative of Internal Audit would now attend every Pension Board meeting to assist with consideration of Pension Fund audit issues.
- ◆ Members of the Pension Board had discussed the potential for having Member representation within the governance arrangements for BCPP, noting that some of the Pension Funds involved in establishing that pool were in favour of such representation. The Pension Board agreed that the Pension Fund Committee should be requested to submit its view on this matter, which was undertaken at the meeting which immediately followed the Pension Board on 26 January 2017. In relation to this matter the Chairman of the Pension Fund Committee noted that it was unlikely that Member representation would be available on the Board of BCPP..

The Chairman of the Pension Board noted that this matter related to scheme member representation, rather than solely union representation.

Resolved -

That the update be noted.

The meeting concluded at 1.25 pm.

SL/JR

North Yorkshire County Council

Pension Fund Committee

Minutes of the Special Meeting held on 31 March 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 and Helen Swiers.

David Portlock - Chair of the Pension Board.

Apologies - Councillor Jim Clark – North Yorkshire District Councils and Councillor David Carr - City of York Council provided apologies for their non-attendance at the meeting.

The Chairman noted that Councillor Carr had replaced Councillor Steward as City of York Council's representative on the Pension Fund.

The Chairman noted that County Councillor Jim Clark was currently unwell and all present wished him a speedy recovery.

Copies of all documents considered are in the Minute Book

171. Declarations of Interest

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

172. LGPS Pooling Arrangements

Considered -

The report of the Treasurer and the Assistant Chief Executive (Legal and Democratic Services) requesting Members to approve the legal documents necessary to give effect to the Council's decision to be a member of the Border to Coast Pensions Partnership (BCPP).

The report highlighted how full approval had been given by all 12 BCPP administering authorities, with North Yorkshire County Council approving the proposal, subject to amendments, at its meeting on 15 February 2017.

The amendments to the recommendations at full Council required consultation with the Pension Fund Committee on consequential changes to the Constitution and for the finalisation of the approval and execution, where required, of all legal documents necessary to give effect to the creation of BCPP. This meeting was organised to execute those recommendations.

The latest versions of the documents were attached as Appendices to the report together with a brief note which explained the changes made since the versions were submitted to full Council, the documents being as follows:-

- (i) Briefing note
- (ii) The Inter-Authority Agreement
- (iii) The Shareholder Agreement
- (iv) Articles of Association of BCPP Limited

It was noted that concern had been raised previously in relation to ensuring that appropriate governance standards were considered in drafting the documentation and, therefore, a number of codes had been considered during the review, which were highlighted as follows:-

- ◆ The European Confederation of Directors Associations Corporate Governance Guidance and Principles for the Unlisted Companies in Europe
- ◆ The UK Corporate Governance Code
- ◆ The AIC Code of Corporate Governance

Details of issues that had been considered in relation to the legal documentation for BCPP, alongside those codes, were outlined within the report.

The briefing note provided at Appendix 1 to the report highlighted the proposed changes to the core legal documents which were highlighted as follows:-

Inter-Authority Agreement

- ◆ Alterations to reflect the decision of the Member Steering Group that South Tyneside Council would act as host authority and South Yorkshire Pension Authority would provide the secretary to the Committee and associated services.
- ◆ An additional power for the Joint Committee to co-opt any additional members, as required, on a non-voting basis.

Articles of Association

- ◆ Alterations had been taken to “future-proof” the company arrangements by allowing for additional non-Executive Directors. The maximum number of Directors was increased from six to eight.
- ◆ The quorum had also been changed to require 50% of Directors present to be non-Executives, rather than two.

Shareholder Agreement

- ◆ Provision had been made for an initial appointment of four non-Executive “place holder” Directors recruited from the Fund’s Section 151 and Monitoring Officers. A number of changes had been made to reflect this position including a new definition of “Interim Director”.
- ◆ Amendments to clause 3 now allowed for A shares to be issued and B shares only to be issued when the regulatory capital was required.
- ◆ Changes had also been made to certain decisions of the company from requiring 100% agreement to “shareholder majority” decisions - this was clarified by the example of the first “proper” set of Board Members would be subject to 100% approval and any subsequent changes would be require agreement of 75%. The approval of the first business plan would also require

100% agreement and any subsequent plans would require only shareholder majority approval.

- ◆ Alterations had been made to amend the wording on terms of investment through the pool as it was acknowledged that some investments for some funds would lie outside the pool.

An in-depth discussion took place in relation to the report and the issues raised, and a summary of that discussion is outlined below:-

- ◆ The establishment of a Teckal company and the approach of BCPP to this issue were discussed at length. Details of how the board for BCPP was Teckal compliant, despite this being different from other Teckal arrangements in which the County Council was involved, were outlined. It was also noted that, despite the triggering of Article 50, all European legislation was to be written into English law, initially, and therefore the operation of Teckal would continue as of now, for the time being.
- ◆ Issues around the possibility of the board being increased to eight board members, with the inclusion of the potential for two additional non-Executive board members being placed on the board at a later stage were discussed. It was suggested that initial discussions had led to the consideration of these positions and it was viewed that the two additional non-Executive board members may represent the shareholders.
- ◆ Details of the arrangements for Interim Directors were outlined, including the appointment and replacement procedures.
- ◆ Details of the Shareholder Group and the Joint Committee were outlined, how these differed and how it was likely that the same representative, in the case of many of the authorities involved, would be on both of those groups. There was a suggestion that having the same representative on the Joint Committee and the Shareholders Group may not be appropriate going forward and it was emphasised that there would be further consideration of this issue.
- ◆ Issues regarding the responsibility of the Pension Fund Committee and investments were clarified and it was noted that BCPP would have the primary contact with Fund Managers, rather than the PFC, with representatives of BCPP coming along to talk to the Pension Fund Committee in future.
- ◆ A Member provided an alternative view in relation to representation on the Shareholder Committee and Joint Committee, suggesting that it would be appropriate for the same representatives on both bodies to ensure that the best interests of each Pension Fund were supported by their most knowledgeable representative. It was emphasised that a decision for how these two bodies would be represented was required rather than one representative becoming the default approach.
- ◆ It was noted that the issue of allowing scheme member representation within the structure had been considered, but at this stage had not been given approval. It was noted that the possible representation for scheme members could be addressed through the appointment of Co-opted Members to the Joint Committee, as BCPP developed.
- ◆ Clarification was provided in terms of commitment to funding through the pool and the possibility of investing outside the pool, if North Yorkshire Pension Fund determined that investments were not being managed appropriately. It was

emphasised that the wording within the Shareholder Agreement indicated that Pension Funds should primarily invest with the pool, but not exclusively, which allowed for flexibility where investments were not to the requirements of particular Pension Funds. It was again stated that the Pension Fund Committee would determine the asset allocation strategy, but Investment Managers would be appointed through the sub-funds of the pool.

- ◆ Issues around the transitional arrangements were discussed and it was noted that, initially, the internal funds would transfer into the pool, enabling Pension Funds like North Yorkshire to assess how the arrangements were operating before the transfer of externally managed assets took place. It was emphasised that pooling provided an opportunity to ensure that the best Fund Managers across the pool were retained to provide optimum returns on investments. It was stated that transition was a key issue for the Pension Fund Committee and subsequent meetings would have a focus on this.
- ◆ It was emphasised that although great care would be taken over the timetable for transition, the sooner the investments were transferred to the new pool structure, the sooner the expected savings would be achieved.
- ◆ It was asked whether further alterations were still to be made to the arrangements. In response it was stated that, from day one, the arrangements had to be FCA compliant, and there was still some work to be undertaken to achieve this.
- ◆ A Member suggested that there were concerns on moving investments into an investment company that had no track record. He considered that this was also an issue regarding the infrastructure required, for example the provision of IT systems, and the need to ensure that they were in place before BCPP Limited commenced operations. It also had to be ensured that an appropriate relationship was developed between the pool and Central Government to ensure the best interests of North Yorkshire Pension Fund were fully reflected. It was acknowledged that the arrangements were new and that issues such as those outlined in terms of the development of appropriate systems and processes and relationships with other bodies, including Government, would be addressed, and it was expected that the experience of those developing BCPP would assist in meeting those challenges.
- ◆ Clarification was provided as to where investments could continue outside of BCPP Limited, when a solution within the pool did not exist. It was noted that in such circumstances these could still be managed by BCPP.
- ◆ Noting that these were the strategic documents for the creation of BCPP Limited it was asked when the operating documents were likely to be in place and whether these would come before Members for input. In response it was stated that the operating documents would be for the board, shareholders and the Joint Committee to consider and that Members should be reassured that the unanimous agreement for all 12 shareholders would be required in the case of the initial business plan. It was also noted that there would be no FCA accreditation until all the detailed documents were in place. It was stated that the staff who would be creating these documents were yet to be appointed and, therefore, the process of developing these was yet to take place. It was expected that when the documents and business plan had been created there would be an opportunity for each Pension Fund Committee to discuss and comment on these before they were submitted back for agreement within the BCPP structure.

- ◆ It was noted that the various challenges put forward by North Yorkshire Pension Fund, and the Pension Fund Committee, had been welcomed by BCPP and had assisted the Member Steering Group in developing the documents being considered at today's meeting.
- ◆ It was noted that salaries for the Executives had been agreed. Details of the set up costs for the pool were outlined. It was expected that, going forward, economies of scale would create savings for the individual Pension Funds.
- ◆ The structure for the interim arrangements was outlined, with Section 151 and Monitoring Officers appointed to an interim board, to be replaced in time by non-Executive and Executive Directors as they were appointed. It was noted that discussions were ongoing as to which officers would be Interim Directors.
- ◆ Details around the issue of A shares and B shares were provided.
- ◆ The appointment of observers was discussed and it was noted that although these would not be able to vote they could speak at board meetings.
- ◆ Details of which issues required a unanimous agreement and those that required a 75% agreement, at shareholder meetings, were outlined. The position, should deadlock be created, was outlined, with Section 151 Officers working together to create a solution, and, if still not resolved, then the matter would go to external arbitration.
- ◆ It was noted that timeframe for the publication of BCPP's accounts did not correlate with the new earlier publication of accounts for local authorities and it was asked whether this position would have to be altered. In response it was stated that this may take place, however, in any event North Yorkshire Pension Fund would continue to publish its accounts in accordance with what was required following the change to the publication date. It was noted that, currently, Fund Managers published their account details at a different times to that of the Pension Funds, and that did not create any difficulty.
- ◆ Details relating to breaches by authorities, related sanctions and new shareholder admissions were outlined. It was asked if any plans were in place for the possible merger of two or more of the pools that had been created. It was stated, in response that, at this stage, there was nothing specific within the documentation relating to that position, however, if new shareholders were to be admitted this would require the unanimous agreement of the existing shareholders and there was the capability to add additional shareholders. It was emphasised that this would require those coming into BCPP to operate under the existing arrangements, but that a merger may require a new entity to be created. It was emphasised that, currently, there were no discussions taking place with regards to possible pool amalgamation.
- ◆ The issue relating to the change of the maximum number of non-Executive Directors was discussed further and a Member considered that it was appropriate that a board of eight Directors, including the additional two non-Executive Directors be in place from the beginning.
- ◆ Concern was raised that the documentation indicated that Directors only had to inform shareholders if they were to borrow sums of money of £5m+, but there was nothing required, in terms of reporting to shareholders, for borrowing any other amounts and it was suggested that this should be included. It was noted that a number of issues such as this would be addressed through the business plan, which required shareholder approval.

- ◆ A Member asked whether the Pension Fund Committee could make a recommendation that at least one shareholder representative should be appointed to the board, to fill one of the additional non-Executive board member positions created through the amended documents. A Member emphasised that those who were to serve on the board needed a great deal of technical knowledge around law, investment, etc and that the appointments had to reflect an appropriate range. In relation to this it was noted that the FCA regulations did not require for the Executive or non-Executive board members to have any Local Government sector knowledge, but did require other experience that may make it difficult for representatives from the Local Government sector to sit on the board. Members suggested that a board of eight members with a three Executive/five non-Executive split appeared to be the best make-up, which allowed for appropriate shareholder representation. It was noted that the additional costs to BCPP of having extra Directors were insignificant, and that the responsibilities of the board may require a larger number than six. A Member noted that the current documentation before Members indicated that there was provision for eight Directors and, therefore, the matter could be left for officers to negotiate rather than the recommendation coming from the Pension Fund Committee. It was also noted that the role of the board would change, going forward, and that it may be more appropriate to have Directors with different experience in place at a later stage. Members considered that it was appropriate to have an additional recommendation from the Pension Fund Committee in respect of this matter, rather than requesting officers to negotiate this position.

- ◆ It was noted that the Chairman of the Pension Fund Committee, County Councillor John Weighell OBE, had been appointed Chairman of the Joint Committee for BCPP and Members welcomed that appointment.

- ◆ A Member outlined his concerns regarding the development of pooling and highlighted caution in terms of those arrangements failing and the potential consequences for council tax and was worried that pensioners would, ultimately, be let down. He emphasised that his service to the Pension Fund Committee, over many years, had seen him ensure that pensioners were getting a fair deal and he was not confident that this arrangement would continue. The Chairman acknowledged the issues raised by the Member but emphasised that it was unlikely that a Council would be in a position of bankruptcy although he knew that it was technically possible. He emphasised that the impact, should the new arrangements fail, would be through additional costs to the council tax payer.

Resolved -

- (i) That the Inter-Authority Agreement, as detailed at Appendix 2 to the report, be approved.

(County Councillor John Blackie asked for his abstention from the vote on this matter to be recorded).
- (ii) That the Shareholder Agreement, as detailed in Appendix 3 to the report, be approved.
- (iii) That the Articles of Association of BCPP Limited, as detailed in Appendix 4 to the report, be approved.

- (iv) That it be recommended that the suitable composition of the board be eight members comprising of three Executive members, three non-Executive members and up to two non-Executive representatives from shareholders.
- (v) That it be recommended that the Constitution of the County Council be amended to accommodate the terms of reference of the BCPP Joint Committee.
- (vi) That authorisation be given to 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.

(County Councillor John Blackie asked that his approval to recommendations (ii) to (v) be recorded.)

173. Retiring Members

It was noted that County Councillors Bernard Bateman MBE, Roger Harrison-Topham and Helen Swiers would not be standing at the forthcoming elections and, therefore, this would be their final meeting of the Pension Fund Committee following many years of service.

Resolved -

That County Councillors Bernard Bateman MBE, Roger Harrison-Topham and Helen Swiers be thanked for their many years of service to the Pension Fund Committee and for their valuable contributions during that time.

174. Pensions Administration Team Manager

It was stated that the Pensions Administration Team Manager, Anna Binks, was leaving the team to take up another position with North Yorkshire Fire and Rescue Authority.

Resolved -

That Anna Binks be thanked for her many years of service to the Pension Fund Administration Team and the best wishes of the Pension Fund Committee be conveyed to her for her future employment.

The meeting concluded at 12.40 pm.

SL/JR