

# **NORTH YORKSHIRE COUNCIL**

## **PENSION BOARD**

**9 JANUARY 2025**

### **GOVERNMENT PENSIONS REVIEW AND POOLING UPDATE**

#### **Report of the Treasurer**

## **1. PURPOSE OF REPORT**

- 1.1. To set out the legal requirement to pool pension fund assets and how North Yorkshire Council is addressing this through Border to Coast.
- 1.2. To update the Pension Board on Government pronouncements on fund consolidation, domestic investment, and other aspects of the LGPS.

## **2. BACKGROUND**

- 2.1 In November 2015, the Government issued an Investment Reform Criteria and Guidance document inviting proposals for pooling. This required all LGPS administering authorities to submit to Government initial and detailed proposals by 19 February 2016 and 15 July 2016 respectively.
- 2.2 On 1 November 2016, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These Regulations mandate that the separate Local Government Pension Scheme Funds in England and Wales combine their assets into a small number of investment pools.
- 2.3 The Secretary of State has direction and intervention powers if not satisfied that an administering authority is complying with its obligations in relation to the Regulations.
- 2.4 To meet the requirements of these regulations, North Yorkshire Council was involved in the creation of Border to Coast Pensions Partnership Limited (Border to Coast).
- 2.5 Border to Coast is an alternative investment fund manager, authorised by the Financial Conduct Authority (FCA) and wholly owned by eleven Local Government Pension Scheme (LGPS) administering authorities, including North Yorkshire Council.
- 2.6 Border to Coast operates investment funds for these local authorities to invest pension fund assets, to assist in the implementation of their investment strategies and asset allocation requirements. The assets under management across the eleven partner funds are valued at approximately £60 billion.

- 2.7 Under pooling arrangements, the Pension Fund Committee remains responsible for setting the funding strategy and the high-level investment strategy, including the appropriate asset allocation for the Fund. The main difference with pooling is that the Fund will not be directly making its own investments unless it is not possible to do this through Border to Coast. Instead, the Fund will be monitoring the performance of the investments in the Pool.
- 2.8 In 2019 the Ministry of Housing Communities and Local Government (MHCLG) consulted with selected interested parties on updated guidance. The response on this consultation was never published.
- 2.9 Another consultation was published by the Government on 11 July 2023, *Local Government Pension Scheme (England and Wales): next steps on investments*. The Fund submitted a response by the deadline of 2 October 2023.
- 2.10 On 22 November 2023 the Government published [Local Government Pension Scheme \(England and Wales\): next steps on investments – government response](#). This reflected on the 152 responses received and set out their plans to:
- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled
  - revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
  - implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
  - revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark
  - make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
  - amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan
  - revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity

- 2.11 Barring a few minor details, these intentions were in line with the consultation document. New guidance was expected to be published before the summer recess, but this did not happen.
- 2.12 On 28 March 2024 the Government published [Preparing the Pension Fund Annual Report Guidance for Local Government Pension Scheme Funds April 2024](#). This guidance document introduced a range of new requirements including those aimed at addressing some of the aims detailed in the pooling consultation. They include reporting on investments inside and outside of pooling arrangements, the proportion of assets invested in private equity, and the proportion of assets supporting the government's Levelling Up agenda, which is no longer a government policy.
- 2.13 On 15 May 2024, DLUHC (Department for Levelling Up Housing and Communities, which was the name of the renamed MHCLG between September 2021 and July 2024) wrote to LGPS administering authorities asking them to comment on the themes of economies of scale, efficiency, and governance.
- 2.14 Although there has been a change of Government, it was considered appropriate to reply. The NYPF reply was broadly consistent with the replies from the other partner funds in Border to Coast, and with the reply sent by the Joint Committee.
- 2.15 On 17 July 2024 the King's Speech included a few issues which might be relevant, although there was no specific mention of the LGPS.
- The National Wealth Bill will be aimed at delivering growth and a greener economy. A £7.4 billion capital injection was mentioned. Other than a reference to the UK Infrastructure Bank there was no information on where the funding would come from.
  - The Pension Schemes Bill will "enable consolidation and more productive investment of funds". The focus is to be on private pensions market consolidation.
- 2.16 On 20 July 2024 the Government issued a press release "[big bang on growth](#)" on boosting investment and savings and tackling waste in the pensions system. The key points were:
- action will be taken to unleash the £360 billion of LGPS investments and make it an engine for UK growth.
  - pooling would enable investment in a wider range of UK assets and further mandating of pooling will be considered if insufficient progress is made by March 2025 (which is the same deadline posed by the previous Government).

- further consolidation would be explored, with the focus seemingly on funds rather than pools.
  - fees and costs would also be explored.
- 2.17 On 7 August 2024 the Chancellor met with representatives of the major Canadian public pension funds. In a statement ahead of the meeting the Chancellor said “the size of Canadian pension schemes means they can invest in far more productive assets like vital infrastructure than ours do. I want British schemes to learn lessons from the Canadian model and fire up the UK economy”.
- 2.18 Hymans Robertson has published a useful policy briefing note, [The Canadian Model](#). It’s interesting to note that that the arrangements were established with certain principles including alignment of interest and collaboration between stakeholders without political interference.
- 2.19 However, there is an ongoing heated debate in Canada between the Government and the funds about the low level of domestic investment, which is amongst the smallest domestic allocations in the world. The article [Canada’s pension spat exposes global institutional capital fight](#) illustrates this.
- 2.20 On 16 August 2024 the [Terms of Reference for Phase 1 of the Government’s Pensions Review](#) was released. This will focus on defined contribution schemes and the LGPS, and findings are expected to be reported this year, ahead of the introduction of the Pension Schemes Bill. The aims are aligned with the Government’s pronouncements above.
- 2.21 On 4 September 2024 the Government published a [Pensions Investment Review: Call for Evidence](#) which was aimed at private sector defined contribution schemes and the LGPS. This talked about investing at scale, LGPS consolidation, costs and investing in the UK. The Fund’s response was broadly consistent with the responses from the other ten partner funds.
- 2.22 As part of the Government’s information gathering exercise, officers of the eleven partner funds met with HM Treasury, MHCLG and the Government Actuary’s Department (GAD) on 8 October 2024. This helped to reinforce the messages in the written responses to the Call for Evidence.

### **3 RECENT DEVELOPMENTS**

- 3.1 There were expectations that LGPS arrangements would feature in the Autumn Budget, presented on 30 October 2024. However, the only relevant comments were:
- Unused pension benefits and death grants are to be brought into scope for inheritance tax purposes.
  - The measure of public debt the Government uses for its fiscal targets will now include the LGPS.

- 3.2 The Chancellor gave her Mansion House speech on Thursday 14 November 2024. The [Pensions Investment Review: interim report](#) was announced and published later the same day.
- 3.3 The interim report covers defined contribution pensions arrangements and the LGPS. It is very brief. Workstream 2 is on the LGPS and comments on a consistent approach to asset pooling, local investment and strengthening governance. Workstream 4 is on UK investment and briefly refers to the role the LGPS could play.
- 3.4 It is not known whether the second phase of the review, which is underway, covers the LGPS. The final Pensions Investment Review report is expected to be published in the Spring of 2025.
- 3.5 The consultation [Local Government Pension Scheme \(England and Wales\): Fit for the future](#) was published on 14 November 2024. Officers are working with Border to Coast and the other ten partner funds to respond on behalf of the Joint Committee. Each partner fund, including the North Yorkshire Pension Fund will also respond in their own right. The deadline for responses is 16 January 2025.
- 3.6 There are three main sections in the consultation document, on pooling investments, local investment, and governance.
- 3.7 On pooling investments and local investment, there are five proposals for “optimising pooling for the future” being:
- Administering authorities would remain responsible for setting an investment strategy, with implementation delegated to the pool.
  - Administering authorities would be required to take their principal advice on their investment strategy from the pool.
  - Pools would be required to establish FCA regulated investment management companies with suitable expertise to implement investment strategies.
  - Administering authorities would be required to transfer legacy investments to the management of the pool.
  - Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.
- 3.8 The existing arrangements with Border to Coast and the business strategy for the next several years are closely aligned with these recommendations.
- 3.9 On fund governance and reporting, there are seven proposals. They build on the recommendations of the Scheme Advisory Board’s Good Governance Review, made several years ago.

- To publish a governance and training strategy which would include a conflict of interest policy. **CHECK WITH JO ON PROGRESS.**
  - To identify a senior LGPS officer, who will have responsibility for advising the Pensions Committee and Pension Board, developing the strategy, ensuring risk management arrangements are effective, and other matters.
  - To publish an administration strategy.
  - To improve the accessibility of annual reports by including hyperlinks to governance documents rather than including the full texts of those documents.
  - To participate in a biennial independent governance review.
  - To introduce knowledge and understanding requirements for Pension Fund Committee members and officers of the administering authority, aligned with those for Pension Board members.
  - To appoint an independent adviser to support Pensions Committees.
- 3.10 NYPF already complies with some of these proposals, in that an Administration Strategy is published on the Fund's website, hyperlinks are used in the Annual Report, and there is an independent adviser who attends Pension Fund Committee meetings and workshops.
- 3.11 In other areas, it is believed that the Fund complies or is closely aligned. For the senior LGPS officer, the Fund has a Treasurer. Pension Fund Committee members have access to the same training opportunities offered to Pension Board members, which allows Board members to comply with the requirements, and these opportunities are a part of training available to officers.
- 3.12 Until recently, the Fund commissioned a review of governance arrangements from an independent professional observer. This was paused, following the retirement of the individual and pending the publication of the new General Code, with the intention of recommencing this arrangement with a new observer in due course.
- 3.13 There are also two proposals on pool company governance. The first is that the pool company board should have shareholder representatives, and the second is to improve transparency of costs and performance. Border to Coast already has two shareholder representatives, and reports costs to Government.
- 3.14 Overall, it is expected that only modest changes will be needed to governance arrangements to comply with the new requirements.

- 3.15 The Government intends to set out the new requirements in regulations, and to work with the Scheme Advisory Board on new statutory guidance. No forecast publication dates are available, although there is an expectation that the regulation and guidance will be published in the second half of 2025.

#### **4. GOVERNANCE – JOINT COMMITTEE**

- 4.1 As part of the Governance arrangements for Border to Coast, a Joint Committee has been established. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the funds managed by Border to Coast.
- 4.2 The Joint Committee is comprised of one member from each of the eleven partner funds. They are typically the Pensions Committee Chairs, but not in every case. Councillor George Jabbour from North Yorkshire was appointed as the Chair at the meeting on 20 June 2024. Councillor Doug McMurdo from Bedfordshire was appointed as Vice Chair at the meeting on 26 September 2024.
- 4.3 Also, on the Joint Committee, but in a non-voting capacity, are two scheme member representatives nominated by the eleven partner fund Pension Boards. They are Nicholas Wirz from Tyne and Wear Lynda Bowen from East Riding.
- 4.4 The Joint Committee arrangements are hosted by South Yorkshire. The most recent meeting was on 26 November 2024. Agenda papers and minutes are available [here](#). The confidential papers have been circulated to Pension Board members separately.

#### **5. GOVERNANCE – THE COMPANY**

- 5.1. The current Board of Directors of the company is made up as follows.

- Chris Hitchen, Non-Executive Chair
- Rachel Elwell, Chief Executive Officer (CEO)
- Fiona Miller, Chief Operating Officer (COO)
- Kate Guthrie, Non-Executive Director (NED)
- Tanya Castell, Non-Executive Director (NED)
- Andrew November, Non-Executive Director (NED)
- Richard Hawkins, Non-Executive Director (NED)
- John Holtby, Non-Executive Director (NED)
- David Coupe, Non-Executive Director (NED)

- 5.2. Councillor John Holtby (East Riding), and Councillor David Coupe (Teesside) are the two Partner Fund nominated Non-Executive Directors (NEDs) on the Board. The appointments to these two positions followed recommendations by the Joint Committee, approval by the Board of Border to Coast, and approval by the Financial Conduct Authority (FCA).

5.3. North Yorkshire Council, as the administering authority of the North Yorkshire Pension Fund, is the named shareholder in Border to Coast, owning a 1/11<sup>th</sup> share of the company.

## 6. NORTH YORKSHIRE'S INVESTMENTS WITH BORDER TO COAST

6.1. To date, the Fund has invested approximately 77% of the total value of the Fund with Border to Coast, as detailed below.

<b>Border to Coast fund</b>	<b>Investment Inception</b>	<b>30 September 2024 £ million</b>
UK Equities	April 2019	193
Global Equities	October 2019	1,369
Private Credit	October 2019	154
Infrastructure	July 2019	359
Climate Opportunities	April 2022	60
UK Opportunities	-	0
Listed Alternatives	February 2022	290
Multi Asset Credit	November 2021	254
Corporate Bonds	March 2020	346
Index Linked Bonds	October 2020	562
<b>Total</b>		<b>3,587</b>

## 7. CONCLUSION

- 7.1. The launch of new funds continues broadly in line with expectations. Border to Coast has been focussing resources on developing a small number at any one time, rather than try to do too much too quickly. Understandably, the pace of fund launches has slowed, with Border to Coast now managing approximately £40 billion of partner fund assets.
- 7.2. Changes to LGPS investment and governance arrangements are proposed in the Pensions Investments Review interim report and in the Local Government Pension Scheme (LGPS): fit for the future consultation. However, at this stage, compliance with the requirements is not expected to lead to material changes to the approach North Yorkshire has been taking with Border to Coast.

## 8. RECOMMENDATIONS

8.1. Pension Board members are recommended to note the report.

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16 December 2024