

MEETING OF THE PENSION FUND PANEL

5 JUNE 2017

REPORT OF THE CHIEF EXECUTIVE

1. NCC representation on Border to Coast Pensions Partnership (BCPP) Joint Committee

Purpose of the report

This report seeks authority from the Pension Fund Panel to nominate the Panel Chair and Vice Chair (as substitute) to represent NCC Pension Fund within the newly established governance arrangements for BCPP Pool.

Recommendation

The Panel is requested to:

- (i) nominate the Chair and Vice Chair (as substitute) to represent NCC on the newly established BCPP Joint Committee; and
- (ii) nominate the Chair and Vice Chair (as substitute) or the Chief Financial Officer (or his/her nominee) in consultation with the Chair and Vice Chair of the Panel, as appropriate, to exercise NCC's shareholder rights in BCPP Ltd.

Key issues

- 1.1 On 22 February 2017, NCC passed a resolution to adopt BCPP Pool as the administering authority's LGPS pooling arrangement, subject to finalisation of the BCPP legal agreements. The report to full Council is attached as **Appendix 1**, and a summary of the BCPP Pool governance structure is attached as **Appendix 2**.
- 1.2 The BCPP collaboration of funds consists of twelve LGPS funds, including NCC Pension Fund, and each participating fund (i.e. each administering authority) will be both a **client** of BCPP Ltd and joint **owner**/shareholder.
- 1.3 Completion of the legal documents to establish BCPP Pool is expected to take place on **6 June 2017**, at the first meeting of the BCPP Joint Committee. For NCC to participate fully in the first BCPP Joint Committee meeting, the Panel must nominate a representative on that Committee. The first appointment to the BCPP Ltd Board of Directors is likely to take place in June 2017, and for NCC to participate in the appointment process, the Panel must nominate a representative to exercise its shareholder rights. This report seeks the necessary nominations. The governance arrangements for BCPP Pool work on the basis of one fund one vote. NCC Pension Fund is the smallest fund in the

Pool, but has an equal voice in the governance.

1. NCC representation on Border to Coast Pensions Partnership (BCPP) Joint Committee

BACKGROUND

- 1.4 NCC is the administering authority for the Local Government Pension Scheme (LGPS) in Northumberland. In accordance with the LGPS Regulations, NCC maintains and invests a fund of assets, currently valued at £1.3 billion, for the purpose of paying the pension promises made to Scheme members.

Border to Coast Pensions Partnership (BCPP) LGPS pooling arrangement

- 1.5 At the meeting of full Council held on 22 February 2017, NCC passed a resolution to adopt BCPP Pool as the administering authority's LGPS pooling arrangement, subject to finalisation of the BCPP legal agreements. The report to full Council is attached as **Appendix 1** to this report.
- 1.6 The BCPP legal agreements will establish the pool entity, **BCPP Ltd**, and establish the **BCPP Joint Committee** to oversee its operation. At the time of finalising this report, completion of the legal documents was expected to take place on **6 June 2017**, at the first meeting of the BCPP Joint Committee. A verbal update on finalisation and completion of the BCPP legal documents will be provided at this Panel meeting.
- 1.7 Each administering authority participating in BCPP Pool will be a **client** of BCPP Ltd, as well as joint **owner**/shareholder. Eversheds Sutherland's *draft* summary of the BCPP Pool governance structure, dated 25 January 2017, is attached as **Appendix 2** to this report. This provides a useful overview of how the pooling arrangement is expected to operate.

What is meant by LGPS pooling?

- 1.8 In July 2015, the then Chancellor announced the Government's intention to work with LGPS administering authorities to ensure they would pool their investment assets, with the intention of reducing costs while maintaining investment performance.
- 1.9 In November 2015, the Government invited LGPS administering authorities to put forward proposals for asset pooling. The principle behind this was that the 91 separate LGPS pension funds could pool investments and reduce the amounts paid in investment management fees (i.e. the cost of managing those investments). Government's estimated annual savings were assessed as £200m to £300m across the c £200 billion investment assets owned by LGPS funds in England and Wales. Many well informed industry commentators disputed the Government's estimated level of savings, suggesting actual savings would be much lower.
- 1.10 LGPS Regulations were introduced from 1 November 2016 which required administering authorities to **state their approach to pooling** investments in accordance with **guidance** issued by the Secretary of State, and gave the Secretary of State for Communities and Local Government (DCLG) wide powers of direction and intervention to be used if she/he was not satisfied that an

administering authority was complying with its obligations under the Regulations.

- 1.11 Therefore, it is widely interpreted that administering authorities do not have any real choice over *whether* to join a pooling arrangement: the choice they have is which one to join. However administering authorities **do** have a choice, but exercising that choice so as to opt not to pool with other LGPS funds would risk DCLG's intervention. All LGPS administering authorities in England and Wales have found a pool to join, though the arrangements being formed for each pool differ greatly from each other.
- 1.12 The Local Government Pension Scheme Advisory Board's website includes general information about LGPS pooling, which can be accessed for the link: <http://www.lgpsboard.org/index.php/structure-reform/investment-pooling-2015>. The Board's document entitled "Q&A for LGPS employers – Investment reform" which explains the purpose of pooling, is attached as **Appendix 3** to this report.
- 1.13 The following eight LGPS pooling arrangements in England and Wales have been formed or are in the process of forming.

<u>Name of pool</u>	<u>LGPS funds</u>	<u>Value of assets £ billion per July 2016 submission</u>
London Collective Investment Vehicle (L-CIV)	Established for the 33 LGPS funds administered by London's 32 boroughs and the City of London Corporation	25
Northern Pool	West Yorkshire, Greater Manchester, and Merseyside	35
Central	Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, Worcestershire and West Midlands Transport Authority	34
Brunel	Avon, Cornwall, Devon, Dorset, Gloucester, Somerset and Wiltshire, Oxfordshire, Buckinghamshire, and Environment Agency Pension Fund	23
ACCESS	Northamptonshire, Cambridgeshire, East Sussex, Essex, Norfolk, Isle of Wight, Hampshire, Kent, Hertfordshire, West Sussex, and Suffolk	34
Wales	Carmarthenshire, Cardiff, Flintshire, Gwynedd, Powys, Rhondda Cynon Taff, Swansea, and Torfaen	13
BCPP	Cumbria, East Riding, Surrey, Warwickshire, Lincolnshire, North Yorkshire, South Yorkshire, South Yorkshire Passenger Transport Pension Fund, Tyne and Wear, Durham, Bedfordshire, Northumberland, and Teesside	36

- 1.14 Members should note that LGPS pool entities are an entirely new concept, and many of the legal complexities surrounding their establishment and operation are new and untested.
- 1.15 The arrangements for the eight proposed or existing LGPS pools vary greatly, from the L-CIV, which consists of (relatively) small LGPS funds with a FCA regulated asset management company built two years ago with an Authorised Contractual Scheme (ACS) at its core, to Northern Pool, which is a collection of three very large funds which intends to create a FCA regulated company without an ACS at its core.
- 1.16 Government has set a target start date for pools of April 2018, but many commentators view this arbitrary start date as unrealistically tight for establishing a complex new entity.

NCC's approach to pooling

- 1.17 After consideration of the options, on 5 February 2016 the Pension Fund Panel agreed to work with a collaboration of administering authorities to form a pooling arrangement subsequently named the Border to Coast Pensions Partnership (BCPP), on the basis that this proposed pool represented the best fit for NCC Pension Fund. BCPP consists of twelve administering authorities, including NCC.
- 1.18 Initial estimates showed that joining BCPP Pool should result in savings on investment manager fees payable by NCC Pension Fund which would more than outweigh the estimated cost of joining BCPP Pool.
- 1.19 Whilst pooling ought to lead to fee savings, these must be balanced against the cost (to an authority) of pooling, which includes:
- the initial set up costs of building the FCA regulated asset management company (with an ACS) and in January 2017, the Panel agreed to allocate **£350,000** (in total) as NCC's contribution towards the set up costs of BCPP Pool;
 - the loss in asset value as a result of transition of assets from Fund ownership to BCPP Pool ownership;
 - the opportunity cost (in terms of lost investment performance) of holding regulatory capital in BCPP Ltd; and
 - the authority's share of the annual fixed costs of running BCPP Ltd.
- 1.20 NCCPF holds over half its invested assets in passively managed investments with Legal and General, and as a result of collaborating with other funds to create BCPP Pool, collective fee negotiation took place early in 2016, and fees were reduced for NCC Pension Fund from April 2016. This has already resulted in a saving to the Fund of c £500,000 per annum.
- 1.21 NCC worked with the other BCPP funds to submit a detailed, fully costed pooling proposal to DCLG before the Government deadline in July 2016.

1.22 Following receipt of formal approval for the BCPP Pool proposal from DCLG in December 2016, the Panel recommended that Northumberland County Council join the Border to Coast Pensions Partnership pooling arrangement:

- to NCC's Cabinet on 7 February; and
- to full Council on 22 February 2017.

At its meeting on 7 February 2017, Cabinet recommended joining BCPP Pool to full Council.

1.23 The Government's aim is for LGPS pools to be fully operational from April 2018, which is a very tight timescale. The administering authorities collaborating to build BCPP Pool have already acknowledged that targeting April 2018 start date carries unnecessary risk, and approximately three months' extra time has been added to the proposed timeline for establishing BCPP Pool.

Decisions taken by NCC in relation to BCPP Pool

1.24 As noted in paragraph 1.17 above, in February 2016, the Panel formally agreed to collaborate with others to form BCPP Pool.

1.25 At the 27 May 2016 meeting, the Panel:

- endorsed the terms in the BCPP Memorandum of Understanding and Terms of Reference of the **Member Steering Group (MSG)** and **Officer Operations Group (OOG)**;
- nominated the Panel Chairman as NCC's representative on the BCPP MSG and the Panel Vice Chairman as substitute;
- approved the BCPP Agreement as to Costs; and
- noted that the Chief Executive had nominated Clare Gorman as NCC's representative on the BCPP OOG and Craig Johnson as substitute.

1.26 On 22 February 2017 full Council agreed:

- to confirm the proposed BCPP Pool as its chosen approach to pooling;
- to establish BCPP Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 in accordance with and to carry out the functions as set out in the Inter Authority Agreement;
- to enter into the Shareholders' Agreement between the Council and the other eleven named administering authorities to form **BCPP Ltd**;
- to subscribe for one Class A voting share in BCPP Ltd and such number of Class B non-voting shares in BCPP Ltd as necessary to ensure the Council contributes one twelfth of the minimum FCA regulatory capital requirement of BCPP Ltd;
- to authorise the Panel to nominate a representative (and substitute) to vote the BCPP Ltd shareholding and to represent NCC on the BCPP Joint Committee; and
- to authorise the Chief Executive in consultation with the Deputy Leader of the Council and the Chairman of the Panel to **finalise the legal documents** to establish BCPP Ltd and the BCPP Joint Committee.

1.27 On 24 February 2017, the Panel gave approval for the proposed remuneration packages for the BCPP Ltd key (senior) posts. This was the initial step required by all administering authorities, as BCPP Ltd shareholders, as part of the appointment process, because appointing BCPP Ltd's initial directors is a shareholder reserved matter requiring unanimous approval.

Decisions required at this meeting

- 1.28 The BCPP MSG, referred to in paragraph 1.25 above, is the forerunner to the BCPP Joint Committee. The former Panel Chairman, Councillor Tony Reid, and Vice Chairman, Councillor Andrew Tebbutt as substitute, were active members of the MSG.
- 1.29 The formal BCPP Joint Committee (JC) will provide the governance link relating to each administering authority's:
- **ownership** of the Pool entity (i.e. "the **shareholder** role"); and
 - **use** of the Pool as an investor (i.e. "the **client** role").
- 1.30 The main purpose of the BCPP JC is to oversee the investment performance of BCPP Pool, and to provide effective engagement with the administering authorities as the BCPP Pool is built.
- 1.31 There is a meeting of the newly constituted BCPP Joint Committee scheduled to take place on **6 June 2017**, and NCC's Constitution requires the Panel to nominate a representative. Therefore, this report asks the Panel to nominate the Panel Chair and Vice Chair (as substitute) to represent NCC on the BCPP Joint Committee. Providing this authority at this Panel meeting will enable NCC's Panel Chair to participate fully in the BCPP JC meeting on 6 June.
- 1.32 NCC's Constitution also requires the Panel to nominate a representative (and substitute) to vote NCC's shareholding in BCPP Ltd. It is NCC itself (not a person) that is the shareholder in BCPP Ltd. Exercising shareholder rights could be via a vote at the Annual General Meeting, or via a written resolution. Therefore, to maintain appropriate flexibility, this report requests the Panel to nominate NCC's:
- Panel Chair and Vice Chair (as substitute); **or**
 - Chief Financial Officer (or his/her nominee) in consultation with the Chair and Vice Chair of the Panel
- to exercise NCC's shareholder rights in BCPP Ltd.
- 1.33 The interviews for the appointment of BCPP Ltd's Non-Executive Chairman of the Board of Directors are scheduled to take place on 12 June 2017. This is the first and one of the key BCPP Ltd appointments and will be crucial to the success of BCPP Pool. Appointment to the role of Chairman is a shareholder reserved matter, and the Panel's authority sought at this meeting will enable NCC to actively participate in the decision.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None
Finance and value for money:	All investment decisions and funding strategy decisions could have an implication for the future employer contribution rates payable by employers (including NCC) participating in the Pension Fund. It is unclear at this stage how pooling will affect the future investments held by the Fund or the future employer contribution rates.
Human resources:	None
Property:	None
Equalities:	None
Risk assessment:	A risk assessment is performed as part of the asset strategy review every three years to set the Fund's asset allocation strategy. There is no proposed change to asset allocation strategy contained within this report.
Sustainability:	None
Crime and disorder:	None
Customer considerations:	None
Consultation:	None
Electoral divisions:	All

Report sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Executive Director (Chief Executive)	SM
Portfolio Holder(s)	N/A

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