AGENDA FOR A MEETING OF THE WEST YORKSHIRE PENSION BOARD TO BE HELD ON WEDNESDAY 16 MARCH 2016 AT 1000 AT WEST YORKSHIRE PENSION FUND, ALDERMANBURY HOUSE, GODWIN STREET, BRADFORD BD1 2ST

MEMBERSHIP:

Employer Representatives	Member Representatives
Councillor M Slater (Chair) (Bradford) Councillor K Groves (Leeds) Mr J Morrison – Employer One Vacancy	Mr G Nesbitt - GMB Mr M Binks – Unison Mr C Sykes – Unison Mr M Morris – Unite

Notes:

- *This agenda can be made available in Braille, large print or tape format.*

- The taking of photographs, filming and sound recording of the meeting is allowed except if Councillors vote to exclude the public to discuss confidential matters covered by Schedule 12A of the Local Government Act 1972. Recording activity should be respectful to the conduct of the meeting and behaviour that disrupts the meeting (such as oral commentary) will not be permitted. Anyone attending the meeting who wishes to record or film the meeting's proceedings is advised to liaise with the Agenda Contact who will provide guidance and ensure that any necessary arrangements are in place. Those present who are invited to make spoken contributions to the meeting should be aware that they may be filmed or sound recorded.

From:
Meic Sullivan-Gould
Interim City Solicitor
Agenda Contact: Jane Lythgow
Phone: 01274 432270 E-Mail: jane.lythgow@bradford.gov.uk

To:

AGENDA

1. DISCLOSURES OF INTEREST

(Members Code of Conduct - Part 4A of the Constitution)

To receive disclosures of interests from members and co-opted members on matters to be considered at the meeting. The disclosure must include the nature of the interest.

An interest must also be disclosed in the meeting when it becomes apparent to the member during the meeting.

Notes:

(1) Members may remain in the meeting and take part fully in discussion and voting unless the interest is a disclosable pecuniary interest or an interest which the Member feels would call into question their compliance with the wider principles set out in the Code of Conduct. Disclosable pecuniary interests relate to the Member concerned or their spouse/partner.

(2) Members in arrears of Council Tax by more than two months must not vote in decisions on, or which might affect, budget calculations, and must disclose at the meeting that this restriction applies to them. A failure to comply with these requirements is a criminal offence under section 106 of the Local Government Finance Act 1992.

(3) Members are also welcome to disclose interests which are not disclosable pecuniary interests but which they consider should be made in the interest of clarity.

(4) Officers must disclose interests in accordance with Council Standing Order 44.

2. MINUTES

Recommended –

That the minutes of the meeting held on 19 November 2015 be signed as a correct record (previously circulated).

3. INSPECTION OF REPORTS AND BACKGROUND PAPERS

Reports and background papers for agenda items may be inspected by contacting the person shown after each agenda item. Certain reports and background papers may be restricted.

Any request to remove the restriction on a report or background paper should be made to the relevant Director or Assistant Director whose name is shown on the front page of the report.

If that request be refused, there is a right of appeal to this meeting. Please contact the officer shown below in advance of the meeting if you wish to appeal.

(Jane Lythgow - 01274 432270)

4. REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009

The report of the Director, West Yorkshire Pension Fund, (**Document "N**"), advises Members of the Department for Communities and Local Government (DCLG) consultation on revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The report explains that some of the replacement regulations will be necessary to enable the pooling of investments.

It is recommended that Members note West Yorkshire Pension Fund's responses to:-

- **Consultation to revoke and replace the regulations that currently govern the management of investment of funds in the Local Government Pension Scheme.**
- **Government criteria and guidance for investment reform (Pooling).**

(Rodney Barton – 01274 432317)

5. WEST YORKSHIRE PENSION FUND JOINT ADVISORY GROUP MINUTES 28 JANUARY 2016

The role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The minutes of the WYPF Joint Advisory Group are appended to the report of the Director, West Yorkshire Pension Fund, (**Document "O")** and are required to be submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Members are requested to review the minutes of the WYPF Joint Advisory Group.

(Rodney Barton – 01274 432317)

6. GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION EXERCISE

The report of the Director, West Yorkshire Pension Fund, (**Document "P**") informs Members of an exercise being undertaken to wind up the contracted out element link between the LGPS (Local Government Pension Scheme) and the SERPS (State Earnings

Related Pension Scheme) which affected members with service between 6 April 1978 and 5 April 1997.

The reconciliation process is designed to allocate all GMP liabilities to the correct Fund before the deadline in 2018, after which, the relevant Fund that holds the record will be liable for pension inflation increases. The amount of the GMP will contribute towards the calculation of the members' benefits in the New State Pension system which will begin on 6 April 2016.

Recommended -

That the report be noted and the potential additional workloads anticipated from the exercise be acknowledged.

(Grace Kitchen – 01274 434266)

7. WEST YORKSHIRE PENSION FUND FIVE YEAR INTERNAL AUDIT PLAN 2015 TO 2020

The Director, West Yorkshire Pension Fund (WYPF), will present a report (**Document "Q"**) which presents the five year internal audit plan 2015 to 2020. The internal audit plan is updated annually using a five year planning horizon.

Recommended –

That the five year internal audit plan be noted.

(Ola Ajala – 01274 434534)

8. TRAINING, CONFERENCES, SEMINARS AND FUTURE PENSION BOARD MEETINGS

The training of Pension Board members to understand their responsibilities and the issues they are dealing with is a very high priority. The report of the Director, West Yorkshire Pension Fund, (**Document "R"**) provides details of training courses, conferences and seminars which may assist Board Members. Full details about each event will be available at the meeting for anyone interested.

The report also informs Members of the scheduled dates of the next two WYPF Pension Board meetings.

Recommended –

(1) That Members give consideration to attending the events set out in Document "R" including the Valuation Training Event on 28 January 2016.

(2) That the dates of the WYPF Pension Board meeting on 9 November 2016 and 19 April 2017 be noted.

(Caroline Blackburn – 01274 434523)

9. EXCLUSION OF THE PUBLIC

The Committee is asked to consider if the item relating to the minutes of the West Yorkshire Pension Fund Investment Advisory Panel and the Alternative Investments Working Group should be considered in the absence of the public and, if so, to approve the following recommendation:

Recommended –

That the public be excluded from the meeting during the consideration of the item relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meetings held on 5 November 2015 and 28 January 2016 and the Alternative Investments Working Group on 2-3 September 2015 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

10. MINUTES OF THE WEST YORKSHIRE PENSION FUND INVESTMENT ADVISORY PANEL 5 NOVEMBER 2015 AND 28 JANUARY 2016 AND THE ALTERNATIVE INVESTMENTS WORKING GROUP ON 2-3 SEPTEMBER 2015

The Director, West Yorkshire Pension Fund, will submit **Not for Publication Document "S"**, which provides the minutes of the meetings of the West Yorkshire Pension Fund Investment Advisory Panel held on 5 November 2015 and 28 January 2016 and the minutes of the Alternative Investments Working Group on 2-3 September 2015.

Members are requested to review the minutes of the minutes contained in Not for Publication Document "S".

(Rodney Barton – 01274 432317)

---

i:/agenda/WYPFPenBd16Marchdoc

THIS AGENDA AND ACCOMPANYING DOCUMENTS HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

This page is intentionally left blank

City of Bradford MDC
www.bradford.gov.uk

Minutes of a meeting of the West Yorkshire Pension Fund Pension Board on Thursday 19 November 2015 at West Yorkshire Pension Fund, Aldermanbury House, Bradford

Commenced 1000
Adjourned 1125
Reconvened 1135
Concluded 1200

PRESENT

Employer Representatives	**Member Representatives**
Councillor M Slater (Chair) Mr J Morrison - Employer	Mr G Nesbitt - GMB Mr M Binks – Unison Mr C Sykes – Unison Mr M Morris – Unite

9. DISCLOSURES OF INTEREST

All those present who were members or beneficiaries of the West Yorkshire Pension Fund disclosed, in the interests of transparency, an interest in all business under consideration.

Action: ***City Solicitor/Director, West Yorkshire Pension Fund***

10. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted by the public to review decisions to restrict documents.

11. MANAGING UNQUOTED INVESTMENTS

The report of the Director, West Yorkshire Pension Fund, (**Document "G"**) provided summary information on the management of unquoted investments.

It was explained that unquoted investments was a generic term for alternative investments not quoted on the stock exchange such as hedge funds and private equity.

Document "G" detailed the management of those investments; the approval, in principle, by the Investment Advisory Panel of every area of investment and investment administration and control. Details of the unquoted investment valuation; taxation compliance, legal contract review and verification of asset values were also provided.

It was explained that unquoted investments provided good returns but did contain more risk. The valuation of unquoted investments was reviewed by external and internal audit every year, and the fund had always received excellent audit reports. However, as the audit confirmation work took place several weeks after the figures had been entered in the accounts and the value of assets had often appreciated in value, there was often a difference between the figure in the accounts and the later valuation by the auditors, which was then described by them as a miss-statement. It was normal practice not to adjust those figures and this was known as the Prudence Principal. It was after reviewing those different figures that the Governance & Audit Committee requested that the Local Pension Board should consider the issue.

Members were assured that each year unquoted investments were valued and verified by the external auditors and throughout the year the internal audit team would check the process and valuation. Quarterly statements were provided. It was acknowledged that the term "miss-statement" was alarming but in a fund valued at £11 billion the value of the two items 'misstated' of £22m was not material.

In response to questions assurances were provided that if the auditors reported that an investment had been overvalued the figures would be adjusted down, however, under valuations would not be increased. This was to ensure the accounts always contained the lower value.

It was queried how unquoted investments were selected and it was explained that the Fund's Alternatives Investment Manager undertook that role. The Manager would monitor the market and ensure that those markets were still appropriate before making their recommendations to the Investment Panel.

The report revealed that the investment in unquoted securities had grown steadily over the past years. The Investment Advisory Panel (IAP) had set a strategy of increasing total unquoted investments to 10% of total investment which meant that the year end share of 7.63% would increase by 2.37% to achieve the 10% strategy. It was queried how that investment compared to that of other funds and it was explained that it was similar to other large funds.

Members recognised that the balance sheet was produced on a particular day (31 March) and the 'misstatement' actually arose due to the movement of values. It was also acknowledged that the quarterly statements provided an indication of the way the fund was moving.

Resolved –

That Document "G", and the use of the Prudent Principle to ensure that the lower value of the fund was recorded, was noted.

ACTION: Director, West Yorkshire Pension Fund

12. AUDITED ANNUAL REPORT AND ACCOUNTS 2014/15

The Director, West Yorkshire Pension Fund (WYPF), provided a report (**Document "H"**) which presented the audited annual report and accounts and the audit completion report for 2014/15. The unaudited version of the report was presented to the WYPF Joint Advisory Group in July 2015.

The increase in membership during the 2014/15 financial year was questioned. It was explained that the fund supported a number of district Councils in West Yorkshire and across the UK. Following auto enrolment some members had opted out but there had been an increase in membership and a slight take up in contribution.

Members questioned if the positive net cash flow during 2014/15 of £53.96m was standard for a fund of its size and how that figure compared to other funds. In response it was explained that the cash flow figure recorded was dependant on the time it was documented. The figure six months later was significant lower compared to 2013/14 as the result of a transfer of £171m cash for Probation Services - Ministry of Justice pensions - to Greater Manchester Pension Fund. To ensure that all pension payments could be made the figure would never fall below 19%.

Document "H" revealed the performance on 14 of the fund's key work areas. The performance reflected the commitment of officers, managers and service partners in delivering services to all clients. Members particularly commended that 97% of telephone calls were answered within 20 seconds.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

13. REVIEW OF INTERNAL AND EXTERNAL AUDIT REPORTS 2014/15

The report of the Director, West Yorkshire Pension Fund, (**Document "I" containing Not For Publication Appendices**) provided a summary of work carried out by the Internal Audit Team and external auditor Mazars LLP, and contained a list of key recommendations made by the Internal Audit Team.

The report revealed that there were no internal or external audit failures to report. The final audit was completed ahead of audit deadline, resulting in an unqualified audit opinion. The internal and external audit teams worked together and all internal audit reports were reviewed by the external auditor.

In the 2014/15 financial year internal audit carried out a planned audit review of 10 key operational and investment activities, in summary, two areas were satisfactory; four areas were good and four areas were excellent. There were six recommendations and eight suggested improvements, all were accepted and were being implemented by managers. There were no recommendations for improvement from the external auditor.

A Member questioned why the representative of the External Auditors had not attended two of the Investment Panel meetings. It was confirmed that the representative had attended all of the meetings when the company had first taken over the account. As the understanding of the fund and the relationship with the Council had developed the company were better equipped to assess risks. The Audit Manager was always provided with all the Investment Panel documentation and would contact the fund for any support required.

The length of the contract with the External Auditors was queried. It was explained that the Audit Commission obligation to appoint the auditors would be reviewed every five years. Members were advised that the price charged by the auditors had not increased.

In response to questions it was confirmed that the approval of the audit reports was the responsibility of the Governance and Audit Committee. The Internal Audit report was presented every three years and following the suggestion of Members it was agreed that a summary of that plan would be considered by the Pension Board and that the item would be added to the work programme.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

14. **WEST YORKSHIRE PENSION FUND JOINT ADVISORY GROUP MINUTES 23 JULY 2015**

The role of The Pension Board, was defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 as to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The minutes of the WYPF Joint Advisory Group (JAG) were appended to the report of the Director, West Yorkshire Pension Fund, (**Document "J")** and were required to be submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

The minutes referred to the Joint Advisory Group's discussions about the Actuarial Valuation 2016 and it was questioned how preparations were progressing. It was explained that meetings had been organised to asses the information required. It was hoped to bring the meetings forward to provide more time for employers to work with the fund. Each actuarial firm had previously used different data but the introduction of national data specifications should make the process easier. Training had been arranged for the Pension Board, Joint Advisory Group and Investment Panel members in January 2016.

The responsibility of the Additional Voluntary Contribution (AVC) providers to inform the fund of changes around tax was questioned. In response Members were informed that there were proposals to extend freedom and choice provisions to AVC funds in draft regulations but until those regulations were provided to the funds it was difficult to say what they would be.

It was questioned if the choice of property purchases was based on the return available or location and it was explained that those purchases were made for investment purposes.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

15. WEST YORKSHIRE PENSION FUND PENSION BOARD WORK PROGRAMME

The Director, West Yorkshire Pension Fund, provided a report, (**Document "K**") which presented a work programme for the West Yorkshire Pension Fund Board. Members were advised that additional areas of work may be added during the year as agreed by the Board.

Appended to the report was a suggestion for an additional area of work on Guaranteed Minimum Pension (GMP) which it was thought Members may wish to consider before the abolition of GMP's in April 2016.

The suggestion referred to in Minute 13 that the Internal Audit Plan be presented on a regular basis was reiterated.

Resolved –

(1) That, with the addition of the Internal Audit Plan consideration, the work programme contained at Appendix A to Document "K" be approved.

(2) That the 'Other Areas of Work for the Board 2016' contained at Appendix B to Document "K" be noted and that the Director, West Yorkshire Pension Fund, be requested to produce a report detailing the position of West Yorkshire Pension Fund in respect of the reconciliation of Guaranteed Minimum Pensions for consideration at the meeting of the WYPF Pension Board in March 2016.

ACTION: Director, West Yorkshire Pension Fund

16. TRAINING, CONFERENCES, SEMINARS AND FUTURE PENSION BOARD MEETINGS

Members were reminded that their training to understand their responsibilities and the issues they would be dealing with was a very high priority. The report of the Director, West Yorkshire Pension Fund, (**Document "L**") provided details of training courses, conferences and seminars which it was thought may assist Board Members. Full details about each event were available at the meeting for anyone interested.

Members were requested to prioritise the Actuarial Valuation training which was organised for 28 January 2016. It was also suggested that the Pension's Regulatory web based training would be useful for Members and the Standard Life Learning Gateway was recommended as a useful resource.

It was agreed that the next meeting of the Pension Board would be held on 16 March 2015.

Resolved –

(1) That the events set out in Document "L" including the Valuation Training Event on 28 January 2016 be noted.

(2) That the date of the WYPF Pension Board meeting on 16 March 2016 be agreed.

ACTION: Director, West Yorkshire Pension Fund

17. EXCLUSION OF THE PUBLIC

Resolved –

That the public be excluded from the meeting during the consideration of the item relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 30 April and 23 July 2015 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

18. WEST YORKSHIRE PENSION FUND INVESTMENT ADVISORY PANEL MINUTES 30 APRIL 2015 AND 23 JULY 2015

The Director, West Yorkshire Pension Fund, submitted **Not for Publication Document "M"**, which provided the minutes of the meetings of the West Yorkshire Pension Fund Investment Advisory Panel held on 30 April 2015 and 23 July 2015.

Resolved –

That the recommendations contained in Not for Publication Document "M" be approved.

ACTION: Director, West Yorkshire Pension Fund

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the Committee.

minutes\WYPFjag19Nov15

THESE MINUTES HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

City of Bradford MDC
www.bradford.gov.uk

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund, Pension Board to be held on 16 March 2016.

N

Subject: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Summary statement:

The Department for Communities and Local Government (DCLG) consulted on Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, some of the replacement regulations will be necessary to enable the pooling of investments.

The new regulations, in summary, make three changes:-

- The introduction of an Investment Strategy and the removal of the prudential limits.
- The requirement for funds to pool their assets.
- The power for the Secretary of State to intervene where an Investment Strategy is deemed not acceptable, a fund does not make satisfactory pooling arrangements, or a fund does not make suitable arrangements to make investments determined by the Secretary of State. Only infrastructure investments are specifically mentioned in the consultation.

Recommendations:

It is recommended that Members note WYPF responses to

- Consultation to revoke and replace the regulations that current govern the management and investment of funds in the Local Government Pension Scheme
- Government criteria and guidance for investment reform (Pooling)

Rodney Barton
Director

Report contact: Rodney Barton
Phone: (01274) 432317
E-mail: rodney.barton@wypf.gov.uk

Portfolio:

Leader of Council & Strategic Regeneration

Overview & Scrutiny Area:

n/a

1. Background

1.1 This consultation proposed to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 with the draft regulations described in Appendix A.

1.2 The reforms proposed to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk.

1.3 The reforms also proposed the introduction of safeguards to ensure that the more flexible legislation is used appropriately and that the guidance on pooling assets is adhered to. This included a power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.

1.4 Views were sought on whether the proposed revisions to the investment regulations will give authorities the flexibility to determine a suitable investment strategy that appropriately takes account of risk.

1.5 Views were also sought on whether the proposals to introduce the power of intervention as a safeguard would enable the Secretary of State to intervene, when appropriate, to ensure that authorities take advantage of the benefits of scale offered by pooling and deliver investment strategies that adhere to regulation and guidance. Views had not been sought on what might be a more pertinent question, whether the Secretary of State should have the power to intervene

1.6 Consultation closed on 19 February 2016

The full set of documents and responses have been published on
http://www.wypf.org.uk/Member/Consultation/ConsultationHome.aspx

2. Appendix

Appendix A – LGPS draft regulations 2016

Appendix B - WYPF response to consultation to revoke and replace the regulations that current govern the management and investment of funds in the Local Government Pension Scheme

Appendix C – WYPF response to Government criteria and guidance for investment reform (Pooling)

Appendix D – Pool submission document

STATUTORY INSTRUMENTS

2016 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Made - - - -	*2016*
Laid before Parliament	*2016*
Coming into force - -	*2016*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**a**).

In accordance with section 21 of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st April 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

"the 2000 Act" means the Financial Services and Markets Act 2000(**b**);

"the 2013 Regulations" means the Local Government Pension Scheme Regulations 2013(**c**);

"the Transitional Regulations" means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(**d**);

(**a**) 2013 c. 25
(**b**) 2000 c.8.
(**c**) S.I. 2013/2356.
(**d**) S.I. 2014/525.

"authority" means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

"fund money" means money that is or should be in a pension fund maintained by an authority;

"proper advice" means the advice of a person whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters;

"the Scheme" means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011(**a**) (local authority's general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004(**b**) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations "investment" and related expressions have their normal meaning.

(2) But the following provisions of this regulation specify things which count as investments for these Regulations, although they might not otherwise do so, and exclude things which might otherwise count.

(3) A contract entered into in the course of dealing in financial futures, traded options or derivatives is an investment.

(4) A contract of insurance is an investment if it is a contract of a relevant class, and is entered into with a person within paragraph (5) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(**c**).

(5) The persons within this paragraph are—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to effect or carry out contracts of insurance of a relevant class;

(b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule(**d**) to effect or carry out contracts of insurance of a relevant class; and

(c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(6) A contract of insurance is of a relevant class for the purposes of paragraphs (4) and (5) if it is—

(a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or

(b) a contract to manage the investments of pension funds, whether or not combined with contracts of insurance covering either conservation of capital or payment of minimum interest.

(7) It is an investment to contribute to a limited partnership in an unquoted securities investment partnership.

(8) For the purposes of this regulation—

"limited partnership" has the meaning given in the Limited Partnerships Act 1907(**a**);

(**a**) 2011 c. 20.
(**b**) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.
(**c**) Section 22 was amended by section 7(1) of the Financial Services act 2012 (c.21).
(**d**) Paragraph 15 was amended by S.I. 2007/126.

"recognised stock exchange" has the same meaning as in section 1005 of the Income Tax Act 2007(**b**);

"traded option" means an option quoted on a recognised stock exchange; and

"unquoted securities investment partnership" means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(**c**), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

(a) the amounts payable by it or payable to it under regulations 15(3), 67 and 68 of the 2013 Regulations (employer's contributions and further payments);

(b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);

(c) all income arising from investment of the fund; and

(d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the reference in paragraph (1) to the authority's pension fund is to the fund which is the appropriate fund(**d**) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(**e**) (charges in relation to pension sharing costs)(**f**).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

(a) paying benefits due under the Scheme; or

(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

(**a**) 1907 c. 24.

(**b**) 2007 c.3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c.8).

(**c**) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.

(**d**) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the "appropriate administering authority" in relation to a person.

(**e**) 1999 c. 30.

(**f**) See S.I. 2000/1047 and S.I. 2000/1049.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) "Deposit-taker" for the purposes of paragraph (1) means—

(a) a person who has permission under Part 4A(**a**) of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(**b**);

(b) an EEA firm of the kind mentioned in paragraph 5(b)(**c**) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(**d**) to accept deposits;

(c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or

(d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

(2) The authority's investment strategy must include—

(a) a requirement to invest fund money in a wide variety of investments;

(b) the authority's assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(**e**).

(5) The authority must consult such persons as it considers appropriate as to the contents of its investment strategy.

(**a**) Part 4A was inserted by section 11 of the Financial Services Act 2012 (c. 21).
(**b**) S.I. 2001/544; article 5 was amended by S.I. 2002/682.
(**c**) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.
(**d**) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906 and 2013/1881.
(**e**) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st October 2016.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to have regard to guidance issued under regulation 7(1) (investment strategy statement).

(2) Where this regulation applies in relation to an authority the Secretary of State may issue a direction requiring all or any of the following—

(a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within a period of time specified in the direction;

(b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;

(c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;

(d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

(a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under section 62 of the 2013 Regulations (actuarial valuations of pension funds);

(b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board(a);

(c) any representations made by the authority in response to the consultation under paragraph (3);

(d) any other evidence available that the Secretary of State regards as relevant to whether the authority has been complying with these regulations or acting in accordance with guidance issued under regulation 7(1) (investment strategy statement).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must co-operate with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

(a) The Local Government Pension Scheme Advisory Board is established under regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(2) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(3) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961(**a**) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(a) (pension fund annual report) substitute—

"(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;".

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

"(b) the statement of the administering authority's investment strategy published under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

"(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

Revocations and transitional provision

12.—(1) Subject to paragraph (2), the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009(**b**) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013(**c**) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority publishes its investment strategy statement under regulation 7(1) (investment strategy statement).

(3) For the period starting on 1st April 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7 (investment strategy

---

(**a**) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).
(**b**) S.I. 2009/3093.
(**c**) S.I. 2013/410.

statement), or 30th September 2016, Regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

We consent to the making of these Regulations

Names

Date — Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name

Parliamentary Under Secretary of State

Date — Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

West Yorkshire Pension Fund (WYPF) Response to the consultation on revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

Executive Summary

This is the response of WYPF to the Department for Communities and Local Government (DCLG) consultation on Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The proposed new regulations, in summary, make three changes:-

- The introduction of an Investment Strategy and the removal of the prudential limits.
- The requirement for funds to pool their assets.
- The power for the Secretary of State to intervene where an Investment Strategy is deemed not acceptable, a fund does not make satisfactory pooling arrangements, or a fund does not make suitable arrangements to make investments determined by the Secretary of State. Only infrastructure investments are specifically mentioned in the consultation.

General Comments

WYPF welcomes the revision of the investment regulations, and the widening of local discretion and accountability that comes with the removal of the schedule of limits from the regulations.

WYPF is, however, concerned that introducing a power of direction for the Secretary of State is completely contrary to the principle behind the changes to the regulations, increasing local discretion and accountability. WYPF is therefore of the view that all matters where any direction or intervention may be required it should be guided by the national Scheme Advisory Board (SAB), which has been established by the Secretary of State under the Pensions Act 2013 to advise the Secretary of State, and individual funds, and produce guidance on best practice. The SAB membership is determined by the Secretary of State, and contains the knowledge and expertise that would be required in the event that a fund requires assistance in fully complying with the regulations.

Response to Consultation Questions

1. **Does the proposed deregulation achieve the intended policy aim of removing any unnecessary regulation while still ensuring that authorities' investments are made prudently and having taken advice?**

WYPF welcomes the widening of local discretion and accountability that comes with the removal of the schedule of limits from the regulations, and the move towards the private sector 'prudent man' approach.

Whether the proposed deregulation will achieve the intended policy aim is somewhat difficult to judge, as the regulations are being considered in isolation, as the guidance to be issued by the Secretary of State could have a significant impact on the proposed freedoms.

Draft regulation 7(4) is prescriptive, and is contrary to the principle of deregulation, and the administering authority being given the power to develop a prudent investment policy having taken proper advice

An Investment Strategy (IS) should be relatively straightforward to develop, as funds already have a Statement of Investment Principles, which covers many of the requirements of the IS.

It is unclear why it is necessary for the Secretary of State to introduce a power of direction in revised regulations where the stated policy objective is reduced regulation. The Secretary of State has established the SAB in accordance with the Pensions Act 2013 to advise the Secretary of State and individual funds, and develop guidance and encourage best practice. Any intervention, which should stop short of direction which would in effect mean the Secretary of State would be taking responsibility for the result, which, ultimately, is the meeting of the liabilities of the fund. WYPF would therefore not support intervention without evidence that the SAB had failed to perform its role in relation to promoting best practice in complying with regulations.

Assuming that the power of direction is included in the final regulation, with all the risks to the Secretary of State making directions would bring, the circumstances in which the power may be exercised must be much more clearly defined in the regulations, and they should specify whose judgement he will rely on when, for example he rejects an IS which has been developed by a fund after taking proper advice.

Greater clarity in the regulations as to how any direction is to be implemented is required, as it would not be appropriate for the Secretary to State to control his own actions by guidance. For example, would there be a role for the SAB, DCLG staff, elected members or officers from another administering authority?

WYPF takes the view that if the guidance yet to be produced is clear then there will be little need for the power of direction, as there are sufficient extant remedies available to the Secretary of State and other interested parties, for example, the Local Pension Board (LPB) and the SAB.

2. **Are there any specific issues that should be reinstated? Please explain why.**

No.

3. **Is six months the appropriate period for the transitional arrangements to remain in place?**

With the advent of pooling 6 months is likely to prove to be too soon, and as 2016 is a valuation year funds will already be consulting on their Funding Strategy Statement (FSS) later in the year. As these two documents are interdependent, and both require consultation, it would make administrative sense if the IS and FSS were prepared simultaneously. Transitional arrangements should apply until the date of approval of the next FSS, and terminate for each fund on the date of the approval of its ISS.

4. **Should the regulation be explicit that derivatives should only be used as a risk management tool? Are there any other circumstances in which the use of derivatives would be appropriate?**

Derivatives are currently used for more than just risk management, for example financial futures may be used to implement asset allocation decisions in a timely manner, giving immediate market exposure while allowing time for considered stock selection.

Although the use of derivatives is wider than risk management or portfolio hedging, there is no doubt that their use must be understood and controlled by the pensions committee members.

Therefore it would be sensible if the regulations specified that derivatives and other complex financial products may only be used where pension committee members have received appropriate technical training, can demonstrate an understanding of the products to be used, have received a report which shows the worst outcome for the fund, and have discussed this with an independent advisor.

This also begs the question why the regulations do not require pensions committee members to have the appropriate knowledge and skill to exercise their responsibilities prudently and effectively, particularly as members of the LPB, which only has the power to scrutinise decisions of the pensions committee, are specifically required to have or obtain appropriate knowledge. The large, well governed funds already have a knowledge and skills framework in place, and making this a requirement would improve governance across the LGPS, and fits well with the policy objective of greater local discretion. This period of significant change would be a good moment for such a change.

5. **Are there any other sources of evidence that the Secretary of State might draw on to establish whether an intervention is required?**

As Regulation 8(4) is widely drafted the sources of evidence to be consulted could be developed in the guidance to be produced. However, the one obvious source of evidence that should be consulted in all cases before an intervention should be the external auditor, as an independent person familiar with the relevant fund and the regulations and guidance applicable.

6. **Does the intervention allow authorities sufficient scope and time to present evidence in favour of their existing arrangements when either determining an intervention in the first place, or reviewing whether one should remain in place?**

The regulation allows sufficient scope to present evidence, but as no time is prescribed, and investment management is a long term business, evidenced by the removal of the requirement for a review of investment managers every three months, it is not possible to conclude that sufficient time is allowed. The regulations should specify a minimum period of at least 180 days, which would allow the fund adequate time to gather, prepare and submit evidence, and for the Local Pension Board to consider the evidence before it is submitted to the Secretary of State.

7. **Does the proposed approach allow the Secretary of State sufficient flexibility to ensure that he is able to introduce a proportionate intervention?**

The Regulation provides the Secretary of State with almost unlimited flexibility to intervene. It is more relevant to consider whether the scope for intervention or direction is too wide, particularly as the intervention can include instruction in relation to the exercise of its (the administering authority) functions under the regulations (Regulation 8(2)(d)) which may have direct financial implications (cost) for the fund concerned. This clearly steps beyond the line of maintaining clear accountability to the local Council Tax Payers.

8. **Do the proposals meet the objectives of the policy, which are to allow the Secretary of State to make a proportionate intervention in the investment function of an administering authority if it has not had regard to best practice, guidance or regulation?**

Without any restrictions in the regulations it cannot be certain that any intervention by the Secretary of State would be proportionate. The regulations should specify that any intervention would be based on advice to the Secretary of State from the national Scheme Advisory Board, which has been established by the Secretary of State in accordance with the Pensions Act 2013 for exactly this purpose.

Marcus Jones MP

Parliamentary Under Secretary of State (Minister for Local Government)

Department for Communities and Local Government

Fry Building

2 Marsham Street

London

SW1P 4DF 19 February 2016

Dear Mr Jones,

Local Government Pension Scheme: Investment Reform Criteria and Guidance

Please find attached a copy of our joint submission, which we believe meets the criteria, as requested.

We welcome the opportunity that pooling presents for reducing costs and joint working, as this is inherent in the operations of West Yorkshire Pension Fund (WYPF). This is demonstrated by the fact that on the administration of the LGPS we also manage administration for Lincolnshire Pension fund on a joint service basis, so that both funds benefit from the economies of scale, as well as for five (and from 1 April 2016 seven) fire and rescue authorities.

WYPF is the 4th largest LGPS fund, with over 260,000 members and more than 400 employers. It presently manages investments with a value in excess of £11 billion. All main asset classes are actively managed internally, and it has a consistently good track record of investment returns stretching back over 30 years, resulting in one of the highest funding levels within the LGPS, at the last valuation, of 96%. This has been achieved with the lowest cost base of any LGPS, less than £12 per scheme member per annum. This is less than the cost of passive management, and with a lower turnover, hence lower transaction costs.

As you will see from the submission, we are committed to pooling, and delivering cost savings particularly on the unlisted and illiquid portfolios.

However, as our cost base for managing listed assets is so low it is likely that WYPF costs in this arena will rise. Therefore we believe that you should consider requiring WYPF to retain its listed investments outside the pool for a period in order to establish a baseline low cost of managing listed assets for the pools to target, as well as consistent long term performance. For example for the 20 years to 31 March 2015 the return was 8.3% against its benchmark of 7.8% (7.8% was the return for the local authority universe too).

We are looking forward to working closely with the Greater Manchester and Merseyside Pension Funds to deliver a high performing, low cost pool which will have the capacity to invest significantly more into infrastructure assets producing the return required to meet the liabilities of the funds.

Yours sincerely

____

Councillor Andrew Thornton, Chair, West Yorkshire Pension Fund

Northern Powerhouse Pool Submission Document

1. Exec Summary

1.1 Purpose of document

1.1.1 This document is a joint submission to Government from Tameside Metropolitan Borough Council, Wirral Metropolitan Borough Council and City of Bradford Metropolitan District Council, the respective administering authorities of the Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund ("the Funds")

1.1.2 The administering authorities have signed a Memorandum of Understanding (attached as Appendix A to this submission) which sets out, at a high-level;

i) how the Funds will work together to form a Collective Asset Pool ("the Pool") which meets the criteria released by Government on 25 November 2015 and;
ii) the expected operation of the Pool when established.

1.1.3 The remainder of this document provides the rationale behind the proposed structure and operation of the Pool. This has been developed by drawing on the knowledge and experience of the Funds' officers and committees, via high-level financial modelling undertaken by PwC (summary report attached as Appendix B) and legal advice from Squire Patton Boggs (attached as Appendix C).

1.2 Benefits that the Pool will deliver

- All funds in the Pool will make new infrastructure commitments via an expanded Greater Manchester/LPFA infrastructure vehicle. Subject to committee approval the capacity of this vehicle will be expanded to approximately £1bn during 2016. This will enable investment in larger infrastructure investments on a direct basis.
- The significant internal resource and experience of the participating funds will enable the Pool to start making collective investments well in advance of Government timescales – cost savings will therefore start to be delivered from an early stage.
- Once Government approval to the Pool is obtained we will quickly implement the collective monitoring and benchmarking of legacy illiquid assets, generating improvements in governance and costs savings above the requirements set out in the Criteria and Guidance.
- As a result of the above, we expect cost savings to emerge from Summer 2016 onwards, with estimated savings of around £30m per annum on alternative/illiquid assets.
- Expectation of being lowest cost pool in the LGPS on a like-for-like basis.

1.2.2 The Pool remains open to other funds to join us on the basis of the Memorandum of Understanding contained within this submission, and this will remain the case up until we submit our final proposals in July 2016. This will enable other LGPS funds to share in the benefits outlined above.

1.3 Contents

Section	Page
1. Executive Summary	1
2. Background	3
3. Investment Philosophy	6
4. Structure and Governance	7
5. Costs and Savings	16
6. Infrastructure	18
Appendix A – Memorandum of Understanding	
Appendix B – Cost Analysis	
Appendix C - Legal Advice	

2. Background

2.1 Government's proposal

2.2.1 In the Summer Budget in July 2015, the Government issued an appeal to Local Government Pension Scheme (LGPS) administering authorities to pool their investments to significantly reduce costs, while maintaining or improving overall investment performance. The Government invited administering authorities to come forward with their own proposals to meet common criteria to delivering savings. These proposals would need to be 'sufficiently ambitious'.

As part of the Autumn Budget in November 2015, Department for Communities and Local Government (DCLG) released the Investment Reform Criteria that the pooling arrangements should have regard to in developing the pooling proposals. These are:

1. **Asset pools that achieve the benefits of scale:** There will be at most 6 asset pools, each of which should be at least £25bn of Scheme assets in size.

2. **Strong governance and decision making:** At a local level, the governance structure should provide authorities with assurance that their investments are being managed appropriately by the pools, in line with the stated investment strategy and in the long-term interests of their members. At a pool level, the governance structure should ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted.

3. **Reduced costs and excellent value for money:** Proposals should explain how the pool will deliver substantial savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.

4. **An improved capacity to invest in infrastructure:** Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class.

2.2 Overview of Funds

2.2.1 <u>Greater Manchester Pension Fund ('GMPF')</u>

GMPF is the UK's largest LGPS fund. The Fund has assets of £17.6bn at 31 March 2015, with over 340,000 members across more than 400 contributing employers.

GMPF has an excellent long-term investment track record – GMPF is ranked 5th over 25 years by WM within their Local Authority Universe at 31 March 2015. Performance (gross of fees) to 31 March 2015 is summarised in the table below:

GMPF Annualised investment returns				
1 year	**5 years**	**10 years**	**20 years**	**25 years**
11.7%	8.3%	8.4%	8.3%	9.0%

Listed-securities are generally managed externally via large low-cost multi-asset mandates. Private market assets, with the exception of property, are generally managed internally.

GMPF employs approximately 16 designated investment staff plus legal and accounting support.

GMPF has for many years made direct local infrastructure investments and more recently has experience of investing in collaboration with others funds (such as the infrastructure partnership with LPFA).

2.2.2 Merseyside Pension Fund ('MPF')

Merseyside Pension Fund has assets of £6.5bn and provides the Local Government Pension Scheme for the Merseyside region, delivering pensions' administration, investment and accounting on behalf of the 5 Merseyside District Councils, 145 other employers and over 128,000 scheme members.

The Fund has a ten strong experienced and professionally qualified internal investment team which has delivered consistently good performance by employing a combination of internal and external management and active and passive strategies. This has been achieved with lower risk than the typical LGPS fund. The Fund has a long track record of investing in Alternatives, including infrastructure and has a substantial direct property portfolio.

Performance (gross of fees) to 31 March 2015 is summarised in the table below:

MPF Annualised Investment returns			
1 year	**5 years**	**10 years**	**20 years**
12.6%	8.6%	7.9%	8.1%

2.2.3 West Yorkshire Pension Fund ('WYPF')

WYPF is the UK's 4th largest LGPS fund. The Fund has assets of £11.3bn at 31 March 2015, with over 260,000 members across more than 400 contributing employers.

WYPF has the lowest investment management cost of all LGPS Funds of £11.49 per member or 0.026% of funds under management.

WYPF has an excellent long-term investment track record and it ranked 11th over 20 years, and 15th over 25 years by WM within their Local Authority Universe at 31 March 2015. Performance to 31 March 2015 is summarised in the table below:

WYPF Annualised investment returns				
1 year	**5 years**	**10 years**	**20 years**	**25 years**
11.8%	8.3%	8.3%	8.3%	8.8%

WYPF is almost entirely in-house managed. The active, long term, low risk, low turnover approach has been central to the achievement of low cost outperformance, and high funding levels compared to the average LGPS fund.

The team of 14 investment professionals actively manage equity portfolios in virtually all countries where markets are investable. Bond portfolios covering domestic and overseas government and corporate bonds are actively managed. In addition a diverse portfolio of alternative assets including infrastructure, property, and private equity are managed by way of unitised investments. The WYPF also invests directly in property.

The investment team is stable and investment managers typically have 20 years investment experience. Particular strength is found in the long term stock selection performance vs the market in several equity and bond portfolios whilst maintaining low risk.

2.2.4 Relative investment performance and costs

All 3 funds have strong long-term investment performance and are ranked in the top quartile of LPGS funds on a 20-year basis. When analysed net of investment costs the relative performance will be stronger still due to the relatively low investment management costs of the funds.

Investment cost per member for 2014/15 taken from the DCLG website are:-

Fund	Rank	Investment cost - £ per member 2014/15
West Yorkshire	1	11.49
Greater Manchester	3	39.01
Merseyside	28	105.41
All England		142.28

2.3 Project POOL

2.3.1 Officers of the Funds all had significant involvement in the work of Project POOL which was the report from LGPS funds to Government supported by Hymans Robertson. This included sitting on the steering group of the project and leading individual asset-class workstreams.

2.3.2 Many aspects of the Pool’s proposed operation are in line with the recommendations set out in the Project Pool report.

3. Investment Philosophy

3.1 Like mindedness

3.1.1 The long-term vision of the Pool is to provide participating funds with access to a range of internal and external investment management and related services at low cost, to enable the participating funds to continue outperforming their benchmark and reduce costs to fund employers and local tax-payers.

3.1.2 The Funds have a combined assets base of £35bn as at 31 March 2015. The intention is that the vast majority of the assets will be managed and monitored from initial formation by the Pool.

3.1.3 The proportion of assets in the pool that are internally managed is expected to increase over time.

3.1.4 LGPS funds exist to meet the benefit promises made to members (i.e. the liabilities). The nature of the liabilities influences the asset allocation of each fund. All funds acknowledge that asset allocation is the dominant determinant of portfolio risk and return.

3.1.5 Markets can be inefficient. Risk premia exist for equity, credit, duration, illiquidity, inflation and volatility. The key principles of the investment approach are a long-term perspective and to maintain simple arrangements with a relatively low number of managers and low manager and portfolio turnover.

3.1.6 The pension committees of the participating funds will retain responsibility for liabilities, setting the strategic asset allocation of their fund, funding strategy statement and appropriate strategy documents.

3.1.7 Subject to continuing to meet best practice and mandates being of sufficient size to ensure low cost, participating funds will also retain the ability to select asset class (equity, bonds, property etc…including multi-asset), territory (UK, Europe, US etc.. or global) style (value, growth etc…) and whether managed actively or passively. For an initial period, participating funds will have the discretion to determine whether a mandate is managed internally by the Pool – as the Pool contains significant capacity and experience in this area or by an external manager. This will enable participating funds who have not previously used internal management to gain comfort of its operation and vice versa.

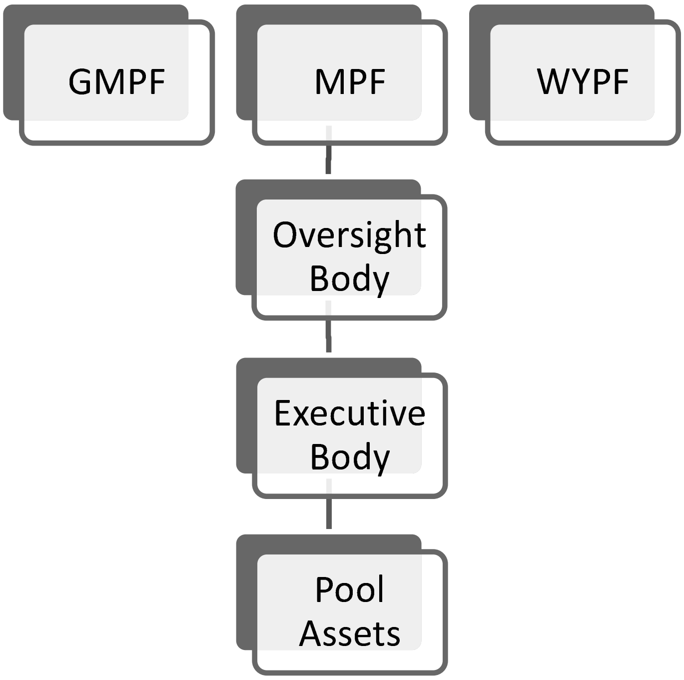
4. Structure and Governance

4.1 Overview

4.1.1 The proposed governance structure for the Pool is an oversight board, consisting primarily of representatives of the participating funds' pension committees, which will define key strategic objectives and provide scrutiny to an executive body of officers who will make the investment management decisions. Both the oversight board and the executive body will work closely with independent advisors.

4.1.2 This structure is designed to maintain democratic accountability for the investment outcomes of each of the participating funds, whilst ensuring all investment decisions are made by individuals with appropriate knowledge and experience.

4.1.3 The structure is set out in the diagram below.



4.2 Oversight body

4.2.1 Following consideration of all available options and obtaining external advice, it is proposed that the oversight body will be a joint committee, with equal representation from each participating fund.

4.2.2 The administering authorities have experience of joint committee working, for example in the creation of combined authorities in their respective regions and the devolution of health spending and have been impressed by the progress made in these areas.

4.2.3 The flexibility of the joint committee approach will allow speedy implementation of the Pools' investment objectives, such as further investment into infrastructure and will allow collaboration with other pools or national initiatives.

4.2.4 The relative simplicity and familiarity with the joint committee approach will enable focus on the areas of pooled working which can deliver material financial benefits, primarily the management of alternative/illiquid assets.

4.3 Executive body and choice of operating model

4.3.1 This body will make the decisions on manager selection and the legal vehicles and structures in which to implement funds' asset allocation decisions. Between February and July further work will be undertaken to determine the most appropriate form for the executive body.

4.3.2. As evidenced in section 2 of this submission, due to the existing scale and simplicity of management arrangements, the funds in the Pool already deliver low-cost management of listed securities either via internal management or via large external mandates (WYPF manages approximately £9bn of listed securities internally and GMPF's largest external mandate is c£6bn – these mandates are significantly larger than any other LGPS pool will realistically achieve in the short to medium term).

4.3.3 Long term performance has also been strong, with all 3 funds being in the top quartile of LGPS funds in terms of performance over 20 years. This is on a gross of fees basis. On a net of fees basis the outperformance will be stronger still.

4.3.4 This impressive track record highlights both the existing expertise and robustness of governance within the Funds.

4.3.5 Whilst there may be some scope via pooling to reduce these costs further and potentially harness an additional governance dividend, it is expected that the biggest benefits from pooling for the Funds will be in the management of alternative/illiquid assets such as property, private equity and infrastructure (including local investments) and the ability to increase allocations to these asset classes via further developing capacity and capability. All 3 funds have significant experience of investing in these asset classes on a direct basis and are well placed to move quickly in developing their collaborative approach, which will best be facilitated by a simple joint-committee structure.

4.3.6 Based on the Funds' knowledge and experience, the conclusions of Project Pool and the professional advice received (see appendices B and C to this submission), our understanding is that alternative/illiquid assets can be held more effectively outside of an Authorised Contractual Scheme ('ACS') structure (for example via limited partnerships), primarily due to their illiquid nature.

4.3.7 The Funds also have experience of creating appropriate legal structures for specific investments – for example GMPF's Matrix Homes project – building 240 homes for sale and rent, was managed via a limited partnership structure.

4.3.8 Using limited partnerships provides 'legal pooling' – for example the GLIL infrastructure partnership between GMPF and LPFA discussed in more detail later in this submission is an entity in its own right rather than a wrapper for two underlying LGPS funds (and is viewed in the market as such).

4.3.9 These limited partnerships would be managed by the Exec Body of the Pool and investors would have day-to-day involvement in their management.

4.3.10 The most appropriate operating model for the management of the Pool's listed securities is less clear. The main options being considered are:

a) An Authorised Contractual Scheme ('ACS');
b) The creation of a FCA Authorised Asset Management Company which would be owned by the Funds;
c) Developing a formal 'shared-service' arrangement which enables the legal ownership of funds' assets to remain unchanged, but still harnesses the benefits of the pooled approach. This could include one of the participating funds obtaining FCA Authorisation to act as an asset manager (similar to the South Yorkshire Pension Fund's authorisation to manage the assets of the South Yorkshire Passenger Transport Fund).

4.3.11 Regardless of which operating model is ultimately chosen, the governance and investment decision making will be comparable to a FCA regulated vehicle. Further detail on the Pool's decision making arrangements is provided in section 4.6 below.

4.4 Authorised Contractual Scheme ('ACS')

4.4.1 It appears that the ACS structure is favoured by some other LGPS pools, and has already been implemented by the London CIV. An ACS appears to be a good structure for consolidating relatively small external mandates to generate scale and material cost savings, but for the reasons set out above, this is not something that adds material value in this Pool.

4.4.2 The benefit of an ACS structure over the other models appears to be a preferential rate of taxation on equity dividends in some territories (principally France and Sweden), although the Funds' allocations to these markets are relatively low and there is no certainty that this preferential tax treatment will continue to exist. It is less tax efficient in emerging markets, a likely area of increased allocations, than other structures.

4.4.3 The analysis provided by PwC (see Appendix B) indicates additional costs in the set-up and transfer of assets into an ACS of approximately £13m.The ongoing costs of operating an ACS are broadly comparable to the alternatives, with the tax benefits referred to above offsetting higher operating costs.

4.4.4 From a practical perspective, the additional work and longer timescales required to implement an ACS structure could take focus away from areas where real value can be added, primarily in the management of alternative/illiquid assets and in particular investing in infrastructure.

4.4.5 Our understanding is that there are also legal constraints which restrict the ability to hold ‘life insurance-wrapped’ passively managed securities in an ACS.

4.5 Advantages of alternative models to an ACS

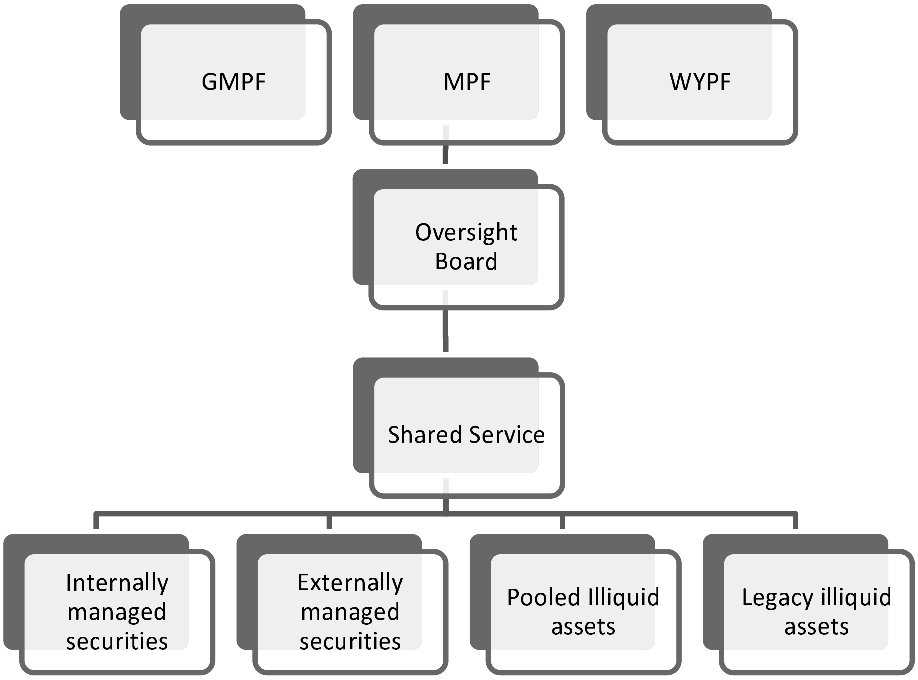
4.5.1 Any material scope for cost savings in the management of listed assets is likely to be obtained from managing a greater proportion of listed securities internally. Based on the legal advice received (attached as Appendix C to this submission) this may be achieved by creating formal ‘shared service’ arrangements between the Funds or by one or more of the funds in the pool seeking FCA authorisation as an asset manager (option c) in 4.3.10 above). Alternatively this could be achieved by establishing an asset management company owned by the participating administering authorities (option b) in 4.3.10 above).

4.5.2 An advantage of option c) is that resource will remain available to manage the diverse range of alternative/illiquid assets which will be retained by the participating funds, in the short to medium term, to avoid exit penalties and charges on change of ownership.

4.5.3 In addition, internal expertise would be retained to advise the Funds’ committees on asset allocation and help provide robust challenge to the external asset allocation advice which the committee receives. It is widely accepted that asset allocation is the primary factor in determining investment returns. Further detail on how this shared service structure may operate is provided in the section below. The Pool would welcome the opportunity to develop this further in conjunction with Government over the next few months

4.6 Shared Service Structure

4.6.1 The structure is set out in the diagram below



4.6.2 The shared service structure is used both to allocate to external managers and to manage assets directly. The key element of the structure is that the individual funds have investment mandates with the pooled/shared investment management service. These are drawn from existing arrangements, and rely on key tools of investment guidelines and a compliance manual. This structure will ensure standards that are consistent with an FCA regulated entity without losing the cost effectiveness and alignment of interests that this management structure provides.

4.6.3 The Funds have a long history of clear and controlled delegation to officers for investment management and this structure is an extension of this. The controls in place and quality of resources available are consistent with an FCA regime.

4.6.4 A role of the oversight board is to oversee the operations of the shared service in a similar manner to a scrutiny committee in local government. The board would ensure compliance of the shared service team with the investment guidelines and compliance manual.

4.6.5 Investment staff are retained in their current employment with their existing authority, but will work as part of a combined Pool investment team. The combined team would be managed using a matrix structure with a Chief Investment Officer (‘CIO’) for each fund responsible for the relationship with that fund and also leading on various areas of investment activity for the Pool.

4.6.6 The CIO group would be responsible for day to day management of the service and investment decision making, with key strategic decisions such as staffing budgets set by the oversight board.

4.6.7 For a transitional period, investment staff below CIO level would be allocated to specific asset classes and would work on the management of both new pooled investments, legacy illiquid assets and the reporting to the oversight board and the Funds’ committees. This ensures the highest quality management across each fund's entire asset base and also ensures an orderly transition of illiquid assets into the Pool. The table below shows an example illustration (not exhaustive) of the types of activity that would be allocated to CIOs. Specific individuals would also be allocated to compliance and risk roles in a similar manner to an FCA regulated entity. Over time, the location of the management of individual asset classes would evolve to centres of excellence as these emerge.

	CIO GMPF	CIO MPF	CIO WYPF
Internal equities			
External Equities			
Infrastructure			
Property			
Private Equity			
Compliance			
Accounting			
Risk			

4.6.8 In the shared service model, increasing the proportion of listed securities that are managed internally could be achieved by all funds appointing a common custodian who could undertake 'block-trading' of securities under instruction from the Pool Executive Body. How this arrangement meets with FCA requirements is covered in the legal advice attached as Appendix C to this submission. The move to a common custodian is also likely to generate a cost saving to the Pool.

4.7 Initial conclusions

4.7.1 The vehicle used to manage the listed securities of the Pool is unlikely to have a material impact on the Pool's performance. However, an ACS is not currently the Pool's preferred option due to:

i) the significant costs involved in its set-up, in particular the costs of transferring assets to the new vehicle;
ii) the relative ease of implementation of the alternative structures to an ACS is considered to allow greater focus on:
    a. the pooled management of alternative/illiquid investments. This is where material cost savings can be obtained;
    b. increasing investment in infrastructure.

4.7.2 Over the period up to the July submission, the Pool will explore available options in more detail and will welcome further discussion with Government in this area.

4.8 Timeline of implementation

4.8.1 As outlined in this document, one of the key aims of the Pool is simplicity. This allows the Pool to focus on driving cost savings whilst maintaining or improving performance and increasing investment in infrastructure.

4.8.2 The proposed time-table for implementation of the pooled arrangements is shown below

Pre Submission

19 Feb	Submission of initial document
Feb - April	Business Planning - Forming of groups of officers at all levels in investment teams to analyse existing arrangements (internal and external portfolios) and internal resources (staffing systems) against the requirements for the Pool
	Further discussion with Government
	MPF and WYPF to consider becoming partners in GLIL infrastructure vehicle and discussions to continue with other pools on using GLIL infrastructure vehicle
May	Consideration of draft Business Plan by the Funds
June	Finalisation of Business Plans and commissioning of any required external work/advice
15 July	Individual and joint submissions to Government

Post Submission Summary

2016	Establish the combined team and focus arrangements for collective investment in alternative/illiquid assets going forward. Existing fund assets remain in the ownership of existing funds at this stage.
	Progress discussions with other pools to work collaboratively in respect of certain asset classes.
2017	Review of Investment management arrangements in listedsecurities
	Combined, multi-site but with centres of excellence, investment team established.
2018	Pooling of management of listed securities focusing on simple, large scale and cost effective structures of internal and external management
Post 2018	Run off of remaining illiquid investments in alternatives retained by funds.

4.9 Management of Alternative/Illiquid assets

4.9.1 The experience in the Pool is potentially a national leader on collective investment in illiquid alternatives.

4.9.2 The Pool's approach to alternative/illiquid assets, will broadly follow the recommendations of Project POOL, which also reflects the Pool's approach to infrastructure. The most significant allocations are currently in property, private equity and 'Special Opportunities' (including hedge funds).

4.9.2 Infrastructure investment is covered in detail in Section 6 of this submission as it is an important differentiator in our approach to pooling compared to other pools and an area where we believe we have built significant capacity and capability.

4.9.3 The Pool is seeking simplicity in its operating model in order to focus attention on the management of these asset classes as this is where the greatest cost savings are likely to be achieved (given the economies of scale that the Funds already have in listed securities).

4.9.4 The broad approach for the management of each asset class is as follows:

Property

Initially, 'virtual' pooling for existing holdings of direct (building) assets. A tender process will be undertaken across all existing mandates to try and achieve fee reductions through economies of scale. There will be no transfer of existing properties but a long-term approach of managing out the portfolios will be developed. The appointed manager would also run a new pooled portfolio alongside the existing portfolios where new purchases would be made, this could be via a Limited Liabilty Partnership ('LLP') structure. (See Project POOL report for further detail).

Using the same manager across all the Pool's portfolios will ensure alignment of interests.

The expected approach to new investments would be to hold direct property, but in-direct investments may be required for efficient portfolio construction. The aims will be to reduce fees through economies of scale and improve investment performance over time through combining teams and strengthening processes.

Private Equity

Existing assets would remain in the individual funds' ownership, but would be monitored via the Pool investment team. New investments would be made collectively through a LLP structure The aims will be to reduce fees through economies of scale (larger commitments and ability to co-invest) and improve investment performance over through combining teams and strengthening process.

Special Opportunities

Special Opportunities covers a variety of investments that do not naturally fit within mainstream fund assets. It could for example reflect short-term opportunities where there have been market dislocations and/or there are early mover advantages. Such investments are primarily asset allocation decisions and thus individual funds decide the allocation.

Existing assets would remain in the individual funds' ownership. New investments may be made collectively through an LLP structure. The aims would be to reduce fees through economies of scale with bigger mandates to external investment managers. The breadth and expertise in the pool may result in more suitable opportunities being identified.

Local Investments

Local investments generally have twin aims of generating commercial returns and supporting the local economy. Examples include GMPF's residential housing developments and social impact investments. Investments are typically made via limited partnerships.

The expectation is that these investments would continue to be held by the individual fund, but management would be undertaken by the Pool as a whole to develop resources and experience in this area.

5. Costs and Savings

5.1 Background

5.1.1 The Funds believe that control of costs is important from the perspective of maximising risk adjusted returns. This applies to both:

(i) The costs of administering the pool investments;

(ii) The underlying investment management costs.

5.1.2 This concept does not always mean the absolute minimisation of costs; for example, certain investment classes, such as private equity and infrastructure, have higher cost than others, such as bonds, but are expected to deliver higher returns. Active investment management has a higher cost than passive but should deliver additional returns. Portfolio construction requires a balance of assets and management approach to control risk, returns and costs to meet the ultimate objective.

5.1.3 Due to the scale of the participating funds and the simplicity of arrangements, this pool will likely have the lowest costs of any of the LGPS Pools at the outset. Given this, the scope for father savings, particularly in management of liquid securities is limited and there will be a focus on saving costs in alternative assets.

5.2 2012/13 Data and comparison to present

5.2.1 The Pool is currently working on calculating 2012/13 investment costs on a consistent basis, including transaction costs and the cost of some underlying investment vehicles. This is important for targeting savings from alternative assets and will be included in the July submission in detail

5.2.2 The table below shows a comparison of the costs of the Funds on a % of Assets Under Management ('AUM') basis from 2012/13 to 2014/15 and the national average.

	GMPF	MPF	WYPF	Combined Pool	National Average
2012/13	0.092%	0.209%	0.019%	0.090%	0.229%
2014/15	0.076%	0.197%	0.026%	0.083%	0.349%

5.3 Alternative/illiquid assets

5.3.1 The pool believes that significant savings can be made in the management of alternative/illiquid assets by using improved in-house capability and the skills of the Pool to undertake more co-investment and direct investment. However we are still working on how to measure costs on a consistent basis for a current base line. The Pool is also continuing to work on how it will manage alternatives in the future and therefore accurate calculation of projected savings is not possible at this stage.

5.3.2 Based on GMPF's current investment of £2bn in these assets, a conservative estimate of the potential saving is £7m per annum. However, the current investments strategy that is in the process of being implemented over the next 3 to 4 years envisages a doubling of investment to these areas and on a like-for-like basis this would yield savings estimated at £17m per annum, again evaluated on a reasonably prudent basis. The equivalent figures for WYPF are £6m and £8m.

5.3.3 Assuming a proportionately similar cost saving for MPF it is therefore envisaged that savings of around £30m per annum could be achieved via the pooled management of alternative/illiquid assets.

6. Infrastructure

6.1 Background

6.1.1 The Funds note the Government's criteria relating to infrastructure. Funds are asked to state in their response the following:

- The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".
- How they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements.
- The proportion of their fund they intend to invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at that amount.

6.1.2 This section sets out how the criteria will be met by the Pool, referring to Project POOL and other collaboration.

6.2 Current Position

6.2.1 The current position of each Fund is set out below.

		GMPF	MPF	WYPF	**Total**
Direct	Allocated	1.5% £250m			**0.7% £250m**
	Committed	0.4% £60m	0.5% £30m		**0.3% £90m**
	At Work	0.1% £17m	0.2% £15m		**0.1% £32m**
Funds	Allocated	4% £680m		3.0% £325m	**3.0% £1,005m**
	Committed	2.8% £469m	4.2% £272m	3.3% £366m	**3.0% £1,107m**
	At Work	1.3% £224m	3.4% £220m	2.4% £271m	**2.0% £716m**
Total	Allocated	5.5% £930m		3.0% £325m	**3.5% £1,255m**
	Committed	3.1% £529m	4.7% £302m	3.3% £366m	**3.3% £1,197m`**
	At Work	1.7% £241m	3.6% £235m	2.4% £271m	**2.2% £747m**

`% are of whole Fund as at 31 December 2015

6.3 Developing capacity and capability in infrastructure

6.3.1 The Funds all made active contributions to Project POOL and are in broad agreement with the key conclusions of the infrastructure section of the report, including:

- Infrastructure assets that are most attractive to pension funds are established infrastructure projects delivering steady income streams that rise with price inflation (since LGPS pension payments increase with inflation). There will also be demand for some higher risk-return assets as reflected in existing portfolios held by the funds in the pool.
- Improved access and lower cost is most likely to be achieved through a national platform accessible to all the LGPS asset pools.
- Further work is required to determine how the national platform should be established and whether it builds on or runs alongside any existing arrangements. Government can assist the investment in infrastructure by ensuring that there is a pipeline of projects that are suitable for investment by the LGPS.
- The creation of an LGPS infrastructure 'Clearing House' will enable a meaningful dialogue with Government in the period leading up to the formal inception of the pools. The Clearing House could source, undertake due diligence and aggregate investment opportunities in the interim period.

6.3.2 This Pool envisages that in addition to commitments to the national pool, there would be some investment by LGPS pools alongside the national pool, either as co-investment opportunities or separately, where appropriate due to location, scale, local knowledge, existing relationships or other factors, but with the national pool providing a clear lead.

6.3.3 Ahead of the pooling agenda, GMPF, which has a long track record of investing in infrastructure funds, has developed capacity to invest in direct infrastructure opportunities through its joint venture with the London Pension Fund Authority ('LPFA'). This vehicle is currently known as GLIL but is due to be renamed. Both funds have committed £250m each to make investments up to £150m. The first investment has been made and due-diligence is being concluded on a number of other opportunities.

6.3.4 This vehicle has been designed to be extended to accommodate other funds and could form part of the national solution. The intention of the Pool and its existing collaborative partners is to promote the concept of an LGPS owned entity with both direct investment capacity and to facilitate the clearing house concept. It is felt that GLIL could form part of the foundations of this.

6.3.5 At present the collaborative partners include LPFA directly; this would quickly be extended to include WYPF and MPF. In addition the "Borders to Coast" Pool has expressed an interest in working with us and has agreed the key features set out below. Much more work is needed on governance structures and it is intended to be very much a collaborative approach with all of the LGPS. If the number of parties investing in GLIL became such that it is impractical for all parties to be actively involved in the decision making process then the vehicle will seek the appropriate level of FCA authorisation.

6.3.6 The key features of this proposal as an investment vehicle and 'clearing house' are:

<u>GLIL Vehicle</u>

- A clear governance structure with decision making devolved from funds' pension committees to officers with a clear investment mandate including risk and return parameters and allowable investment types.
- All contributing pools participating in decision making.
- A number of sub funds targeting assets on the basis of direct or indirect risk/return targets and UK/overseas.
- An appropriately resourced internal transaction team to appraise opportunities
- Use of external resources as appropriate using economies of scale to reduce costs.

Clearing House

This could have the ability to speak for the LGPS as a whole within pre-agreed parameters. The general concept is to avoid loss of value through LGPS pools competing against each other for infrastructure deals. It would then perform roles including:

- Identifying infrastructure projects suitable for direct investment by LGPS pools;
- Performing initial due diligence and present the projects to LGPS pools;
- Gather together the necessary funding commitments from LGPS pools;
- Complete the full due diligence process and act as agents for LGPS pools in the investment.

6.3.7 To provide capacity and capability in a cost effective manner the Clearing House could be supported by the GLIL vehicle in terms of resourcing with costs recovered through a mechanism of charging for investments made.

6.3.8 The Northern Powerhouse Pool specifically would look to support this proposal and the other partners would look to commit both capital and further internal management resources as soon as possible. One of the key strengths of the Pool is its internal management capacity and this is demonstrated in this proposed solution to the infrastructure criteria.

6.4 Future allocation

6.4.1 The Funds are open to further investment in infrastructure and will look to achieve an allocation of 10% of fund value in the medium term subject to identification of investment opportunities that meet the required risk adjusted returns to meet their liabilities. The additional investments would be made via the GLIL vehicle directly and then the Clearing House when available.

City of Bradford MDC
www.bradford.gov.uk

Report of the Director, West Yorkshire Pension Fund, to the meeting of Pension Board to be held on 16 March 2016.

O

Subject:

Minutes of West Yorkshire Pension Fund (WYPF) Joint Advisory Group held on 28 January 2016.

Summary statement:

The role of The Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The Minutes of meeting of WYPF Joint Advisory Group are required to be submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Recommendations

It is recommended that the Board review the minutes of the meeting.

Appendix

Appendix A – Minutes of West Yorkshire Pension Fund (WYPF) Joint Advisory Group held on 28 January 2016

Rodney Barton
Director

Phone: (01274) 432317
E-mail: Rodney,barton@bradford.gov.uk

Portfolio:
Leader of Council & Strategic Regeneration

Overview & Scrutiny Area: n/a

City of Bradford MDC
www.bradford.gov.uk

Minutes of a meeting of the West Yorkshire Pension Fund Joint Advisory Group held on Thursday 28 January 2016 at West Yorkshire Pension Fund, Aldermanbury House, Bradford

Commenced 1410
Concluded 1505

PRESENT – Councillors

Bradford Members Thornton (Ch) Lal	**Calderdale Members** Baines Lynn Metcalfe
Kirklees Members Mather Richards Sokal	**Leeds Members** Davey Dawson
Wakefield Members Speight	**Trade Union Representatives** L Bailey - Unison C Chard - GMB I Greenwood – Unison
Scheme Members W Robinson	

Apologies: Councillor Miller (Bradford); Councillor Jones (Wakefield) and Councillor Harrand (Leeds).

Councillor Thornton in the Chair

17. DISCLOSURES OF INTEREST

All those present who were members or beneficiaries of the West Yorkshire Pension Fund disclosed, in the interests of transparency, an interest in all relevant business under consideration.

Action: Assistant City Solicitor

18. **MINUTES**

Resolved -

That the minutes of the meeting held on 23 July 2015 be signed as a correct record.

19. **INSPECTION OF REPORTS AND BACKGROUND PAPERS**

There were no appeals submitted by the public to review decisions to restrict documents.

20. **REVISED ESTIMATES 2015/16 AND ESTIMATES 2016/17**

The report of the Director, West Yorkshire Pension Fund (**Document "L**) presented the revised estimate for 2015/16 and the original estimate for 2016/17 for administration costs of the West Yorkshire Pension Fund (WYPF) and provided explanations for the revisions.

Members were advised that the cost of managing the fund was charged directly to the Pension Fund and not to local authorities' general fund accounts. The budgets proposed in the report were to deliver pension administration services to over 352,000 pension scheme members, 575 employers and investment management services for over £11 billion WYPF investment assets.

A significant increase reported for computer costs was questioned and Members were advised that the increase was as a result of a new accounting guide by Cipfa which had to be observed by all Local Government Pension Schemes. The guidance required those costs, previously recorded as investment expenditure now being classified as 'general management costs'. It was explained that the increase due to that reclassification was actually nearer to £1.4m but efficiencies made elsewhere had reduced the amount to the £1 million now recorded.

The increased employee costs contained in the estimates were questioned and it was explained that resources had been retained for vacancies held in the service should they be required. The increase to £8.2m in the 2016/17 estimate reflected the value of those vacancies and it was reiterated that the costs would be recharged to the organisations supported.

In response to discussions about the charges made for services Members were assured that further economies of scale were being delivered and that the fund will be providing administration for seven fire authorities from 1 April 2016. Following discussions about the number of staff employed it was explained that the staffing structure contained 120 employees and there were approximately 10 vacancies.

Resolved –

It is recommended that the revised estimates for 2015/16 of £8,823,310 and original estimates for 2016/17 of £9,600,110 be approved.

ACTION: Director, West Yorkshire Pension Fund

21. **2016 ACTUARIAL VALUATION**

The report of the Director, West Yorkshire Pension Fund, (**Document "M**"), informed Members that the triennial actuarial valuation of the West Yorkshire Pension Fund (WYPF) would be prepared based on the situation at 31 March 2016 and the valuation would determine the level of employers' contributions from April 2017 onwards.

The Director, West Yorkshire Pension Fund, explained that a key message being sent to employers was to ensure that accurate and timely returns were provide as the figures in the next quarter would be the figure that was used by the actuary. Members agreed the benefits of ensuring employer contributions remained stable.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

22. **DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (DCLG) CONSULTATION: REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009**

The report of the Director, West Yorkshire Pension Fund, (**Document "N**"), advised Members of the Department for Communities and Local Government (DCLG) consultation on revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

It was reported that the new regulations, in summary, would make following three changes:-

- The introduction of an Investment Strategy and the removal of the prudential limits.
- The requirement for funds to pool their assets.
- The power for the Secretary of State to intervene where an Investment Strategy was deemed not acceptable; a fund did not make satisfactory pooling arrangements, or did not make suitable arrangements to make investments determined by the Secretary of State. Only infrastructure investments were specifically mentioned in the consultation.

A summary of the draft regulations was appended to Document "N". In response to discussions about the power for the Secretary of State to intervene where an Investment Strategy was not deemed to be acceptable was discussed. It was explained that the circumstances when the Secretary of State could intervene were not clearly defined in the consultation documents which had been issued. In response to questions about what the intervention could provide which the current control systems could not it was reiterated that the intervention may be used to ensure pooling arrangements were made, and investment in infrastructure assets.

A strong view that the WYPF should be left to make its own decisions about its funds and that intervention by the Secretary of State was not believed to be an improvement to the current regulations was expressed.

Members agreed that intervention to deal with incompetence was good practice; however, it was stressed that the fund did not have a record of irresponsible investments; it invested prudently and did take account of the needs of the local economy. It was felt that the proposals were too broad; intervention could occur under any circumstances and that other legislation and the National Scheme Advisory Board were already available to deal with unacceptable investment strategies.

Members requested that their strong views, expressed at the meeting, be conveyed in the consultation response. It was further suggested that the WYPF should be used as an exemplar to others.

It was confirmed to Members that similar views about the consultation had been made at the Investment Advisory Panel which had taken place earlier in the day.

Resolved –

(1) That the draft regulations, and a view that those draft regulations do not cause any concerns on the matters pertaining directly to investments, be noted.

(2) That the views of Members expressed during the meeting be included in the response to the Department for Communities and Local Government (DCLG) consultation on revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

ACTION: Director, West Yorkshire Pension Fund

23. INVESTMENT REFORM CRITERIA AND GUIDANCE – INVESTMENT POOLING

The Director, West Yorkshire Pension Fund, presented a report (**Document "O**) which advised Members of the Government's intention to work with Local Government Pension Schemes (LGPS) administering authorities to ensure that they pooled investments to significantly reduce costs while maintaining overall investment performance.

Members were informed that West Yorkshire Pension Fund (WYPF) had held initial discussions with a group of principally Northern based funds, and had publicly indicated that it was working with Greater Manchester, Merseyside and Durham Pension Funds, although other funds may join the group before the 19 February deadline. A more comprehensive proposal must be drawn up for submission to the Government by 15 July 2016. That submission would be assessed against the criteria in the guidance document. The Chancellor had announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which would be able to invest in infrastructure and drive local growth.

A Member suggested that the WYPF submission should state that as the lowest cost fund it should be exempt from the proposals. It was acknowledged, however, that an exemption would be unlikely to be approved.

In response to questions about the effect on future valuations of the fund it was explained that liability would remain with individual funds as only their assets would be pooled.

It was explained that as part of the proposals Local Authorities should explain how they might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or "fund of funds" arrangements. The ability to provide cost savings was questioned, and Members were advised that for many funds cost savings would be straightforward, but problems could arise as WYPF was already the lowest cost provider. There may be opportunities to negotiate a more favourable fee structure or profit arrangements and assumptions would have to be made about the value pools. It was felt that there should be a national infrastructure arrangement so that funds were not competing with other local authorities. It was believed that the response to the consultation would be common from all authorities in the proposed pool, and that the Local Government Association was assisting with those responses by coordinating meetings with DCLG and Treasury.

Whilst the principle of growing the economy was supported concerns were expressed about powers being made to dictate the investments made by funds. Reassurance was sought that the fund would not be vulnerable and unable to pay its members. It was explained that the vulnerability was the rationale for working with other funds, to ensure the liabilities of the fund could be met.

Resolved –

That Members note the content of the reform proposals and approve the continued development of pooling arrangements outlined in Document "O", which will be subject to further reports to the Investment Advisory Group (IAP) between now and the deadline of 15 July, and which will probably require an additional IAP meeting ahead of the deadline.

ACTION: Director, West Yorkshire Pension Fund

24. DEVELOPMENTS WITHIN THE WEST YORKSHIRE PENSION FUND

The report of the Director, West Yorkshire Pension Fund (**Document "P"**) set out developments within the Fund in the last year covering changes in employers, membership, performance and benchmarking, employer and customer service surveys, internal dispute resolution procedure cases and external business.

Appended to the report were fund statistics including communication initiatives and results from employer and customer service surveys, including a sample of responses. A summary of internal dispute resolution procedures cases, also appended, revealed a reduction in the cases upheld. It was felt that the reduction in upheld cases indicated that employers were improving their procedures.

Resolved -

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

25. GOVERNANCE COMPLIANCE STATEMENT

The Director, West Yorkshire Pension Fund, submitted **Document "Q**" which reported that, in accordance with the requirements of the Local Government Pension Scheme Regulations 2013 (Regulation 55), WYPF was required to produce a Governance Compliance Statement.

The Governance Compliance Statement, appended to Document "Q", had been updated to include reference to the establishment of West Yorkshire Pension Fund Pension Board in 2015.

The membership of the West Yorkshire Pension Fund Local Pension Board was queried and it was agreed that a list of members would be circulated following the meeting.

Resolved -

That the updated Governance Compliance Statement, contained in Document "Q", be approved.

ACTION: Director, West Yorkshire Pension Fund

26. REPORTING BREACHES OF LAW

The report of the Director, West Yorkshire Pension Fund, (**Document "R**"), informed Members that, in accordance with the Pensions Act, from April 2015, all Public Service Pension Schemes came under the remit of the Pensions Regulator.

Section 70 of the Pensions Act 2004 (the Act) imposed a requirement to report a matter to The Pensions Regulator as soon as was reasonably practicable where that person had reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme had not been or was not being complied with, and
(b) the failure to comply was likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.

Document "R" revealed that two entries had been made on the breaches register since April 2015. Details of those breaches were reported at the meeting and contained on the Breaches Register appended to the report. Members were advised that the breaches were not of material significance and steps were in place to mitigate their recurrence.

It was explained that the Register of Breaches (reported or otherwise) would be provided to each Joint Advisory Group meeting and shared with the West Yorkshire Pension Fund Board.

Resolved –

(1) That WYPF's Breaches Procedure, contained in Appendix 1 to Document "R" be approved.

(2) That both entries made on the Breaches Register since April 2015 be noted.

ACTION: Director, West Yorkshire Pension Fund

27. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) PROVIDER REVIEW

At the Joint Advisory Group meeting in July 2015 a question was raised in respect of the charges being paid by Prudential AVC contributors.

The report of the Director, West Yorkshire Pension Fund, (**Document "S**") provided an update on a meeting held with Prudential about their charges, the service provided and performance.

It was explained that at the meeting the current pricing structure and how that compared to private sector schemes was discussed. An explanation as to the pricing structure was provided and a summary of what was included in the pricing for AVC facilities was appended to Document "S". It was reported that the company had taken on board the comments made at the meeting and a revised pricing structure was awaited. An update would be provided at the next meeting.

Progress on the issue was welcomed and the imperative to receive value for money when AVCs were procured for all WYPF members was stressed. Concerns that the company had been complacent were raised and the requirement to ensure value for money was reiterated.

Members were advised of work being undertaken on a framework for national tender arrangements for the provision of AVCs and assured that pressure would be applied on Prudential ahead of the outcome of the national framework arrangements.

Resolved –

That Document "S" be noted and the Director, West Yorkshire Pension Fund, be requested to present a further report to the next meeting as part of the annual AVC review once Prudential have reviewed their pricing structure.

ACTION: Director, West Yorkshire Pension Fund

28. SHARED SERVICE PARTNERSHIP WITH LINCOLNSHIRE PENSION FUND

West Yorkshire Pension Fund's (WYPF) shared service partnership to provide a pensions administration service for Lincolnshire Pension Fund (LPF) commenced from 1 April 2015.

The report of the Director, West Yorkshire Pension Fund, (**Document "T")**, provided an update on the partnership. Members were reminded that WYPF provided a full administration service to LPF for both the LGPS and Fire Fighters' Pension Scheme. That service included pensioner payroll, all member and scheme level events, reporting to statutory bodies, and provision of data to external bodies such as actuaries, and Lincolnshire County Council (LCC) Resources Directorate for the production of the scheme accounts.

An administration update revealed that by 30 November 2015, the date specified by the Pensions Regulator, WYPF had sent Annual Benefit Statements to 96% of Lincolnshire Pension Fund members. The balance required additional information from employers before the annual benefit statements could be sent out. It was reported that monthly contribution returns were being received from LPF Employers except for one notable absence – LCC. This was causing some concern and was creating a backlog of work. This was being regularly chased up with LPF who were doing all they could to resolve the issue.

It was reported that WYPF had been recruiting to a staff vacancy in the Lincoln office. The post was advertised both in Bradford and Lincoln and after a recruitment exercise the vacancy had been filled by a WYPF staff member who was looking to relocate to Lincoln. She had considerable pensions experience and it was felt would be a good asset to the Lincoln team.

Membership numbers for LPF were provided. It was confirmed that membership continued to grow and costs per member were reducing.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

29. PENSION ADMINISTRATION STRATEGY AND COMMUNICATIONS POLICY 2016/17

The report of the Director, West Yorkshire Pension Fund, (**Document "U**") advised Members that, as part of the Local Government Pension Scheme (LGPS) Regulations 2013, West Yorkshire Pension Fund (WYPF) prepared a written statement of the authority's policies in relation to such matters as it considered appropriate in relation to procedures for liaison and communication with scheme employers and the levels of performance which the employers and WYPF were expected to achieve.

The Pensions Administration Strategy and Communications Policy were produced last year and approved by the Joint Advisory Group (JAG). It was confirmed that the policies would be brought before JAG each year to review and approve, particularly if there were any new regulations and revisions to working practices following those regulations.

Resolved –

That the Pension Administration Strategy and the Communications Policy 2016/17, contained in Document "U" be approved.

ACTION: Director, West Yorkshire Pension Fund

30. TRAINING, CONFERENCES AND SEMINARS

Members were assured that the training of Joint Advisory Group Members to understand their responsibilities and the issues they would be dealing with was a high priority.

The Director, West Yorkshire Pension Fund submitted a report, (**Document "V"),** which informed Members of training courses, conferences and seminars which may assist them. Full details of each event were available at the meeting.

Members were requested to give consideration to attending the training courses, conferences and seminars set out in Document "V".

No resolution was passed on this item.

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the Committee.

minutes\WYPFjag28Jan16

City of Bradford MDC
www.bradford.gov.uk

Report of the Director West Yorkshire Pension Fund to the meeting of Pension Board to be held on 16 March 2016.

P

Subject: Guaranteed Minimum Pension (GMP) Reconciliation Exercise

Summary statement:
This exercise is to wind up the contracted out element link between the LGPS (Local Government Pension Scheme) and the SERP's (State Earnings Related Pension Scheme) which affected members with service between 6 April 1978 and 5 April 1997.

The reconciliation process is designed to allocate all GMP liabilities to the correct Fund before the deadline in 2018, after which, the relevant Fund that holds the record will be liable for pension inflation increases.

The amount of the GMP will contribute towards the calculation of the members' benefits in the New State Pension system which will begin on 6 April 2016.

Recommendations:
That this report is noted and the potential additional workloads anticipated from this exercise are acknowledged.

Rodney Barton
Director

Phone: (01274) 432317
E-mail: Rodney,barton@bradford.gov.uk

Report Contact: Grace Kitchen
(01274) 434266
E-mail grace.kitchen@wypf.org.uk

Portfolio:
Leader of Council & Strategic Regeneration

Overview & Scrutiny Area: n/a

1. Background

1.1 In April 1978, a state pension was introduced which provided for:

- A flat rate state pension available for everyone regardless of their employment history – PLUS
- An additional amount of pension - the state earnings related pension scheme (SERPS) – based on a members national insurance contributions.

1.2 When a member joined the LGPS, they were ‘contracted out’ of the SERPS part of the state scheme and as a consequence, paid a lower rate of national insurance contributions. This part, or portion, of the state pension was therefore included within their LGPS benefits, as opposed to being paid with their state pension. This portion is called the Guaranteed Minimum Pension (GMP).

1.3 Only members with service from 6 April 1978 to 5 April 1997 will have accrued a GMP.

1.4 A condition imposed on the LGPS regarding the contracted out portion, is that it must pay the member an equal or greater amount of pension than they would have received in the SERPS scheme had they not contracted out. Hence the name, Guaranteed Minimum Pension.

1.5 Her Majesty’s Revenue and Customs (HMRC) notify all schemes of each member’s individual GMP entitlement based on their own records of the member’s national insurance contributions.

1.6 In the vast majority of cases, the pension paid by the LGPS is higher than the additional element that the member would have earned in the SERPS scheme, and as such, their GMP has already been incorporated within their LGPS pension.

2. Recording of the GMP and application of pension increases

2.1 The LGPS is legally required to record the GMP amounts. This is required by the Department of Work and Pensions (DWP) statutory instruments which cover the annual pension increase.

2.2 There is an agreement between the state pension service (under the DWP) and the LGPS concerning who pays the annual inflation increases on the GMP element of the members’ pension which stipulates that any inflation increases on the GMP relating to service pre 5 April 1988 (pre 88 GMP) are paid by the state. Any increases on the GMP relating to service post 6 April 1988 (post 88 GMP) are paid by the LGPS up to a maximum of 3%. Increases above 3% on the post 88 GMP are paid by the state scheme. It is a complex arrangement.

3. Requirements for Reconciliation

3.1 The ability to contract out of the additional state pension is ending from 6 April 2016 when the new single tier State Pension is introduced. HMRC and the DWP have therefore decided to tidy up the GMP part of state benefits and incorporate it into the new State Pension.

3.2 A calculation will be used to establish a value for the old scheme contributions, and this will be the starting amount of pension, for the member, in the new scheme. It will represent the amount that a member would have built up had they not been contracted out. The member will then continue to accrue a further amount of pension to add to this.

3.3 If we do not dispute GMP data which seems incorrect, or disown GMP's which we do not believe belong to our scheme members, the LGPS we will be left with the GMP liability when the reconciliation deadline passes. All GMP's left with us are a financial liability as we will be paying the annual increases on them.

3.4 The ultimate purpose of the exercise is to ensure that records held by the LGPS and HMRC, in relation to periods of contracted-out employment, are correct. This in turn will ensure that the data is up to date and correct prior to being used in calculation of the individuals new State Pension starting amount.

4. Workload

4.1 We have registered with HMRC in order to access the appropriate records which they hold, and which will be compared with our records. We have also done this for Lincolnshire Pension Fund.

4.2 This work is scheduled to begin May / June 2016, to continue into August and perhaps September 2016. This depends on the extent of the mis-match numbers within the reports from the data matching. We are aiming to automate as much of the follow-on work as we can to minimise the impact on the service centre staff workloads.

4.3 However, there are still working groups within HM Treasury who are reviewing the exercise and issuing recommendations on the approaches which pension funds may wish to take. For example, they are recommending the priority in which cases should be matched, beginning with current active members and members who have a deferred pension entitlement. They are also recommending options to simplify the reconciliation by building in a tolerance level for minor discrepancies between the two sets of data, for example accepting a weekly GMP difference of £2 between the two records.

4.4 We may also have to make a decision on an approach to any resulting over or underpayments for pensioner members, who are already in receipt of benefits. Until we have numbers and values to assess this a decision cannot be made.

4.5 It may save unnecessary work if the exercise is deferred until the HMRC working groups publish their conclusions on the approach pension schemes should be taking.

4.6 The Local Government Association (LGA) would like to be informed as to the approach to the current recommendations WYPF intend to take. This will be easier to determine after the initial data matching, as the scale of the differences will be known, and the additional workload assessed.

City of Bradford MDC
www.bradford.gov.uk

Report of the Director, West Yorkshire Pension Fund, to the meeting of the Pension Board to be held on 16 March 2016.

Q

Subject: WYPF - five year internal audit plan 2015 to 2020

Summary statement:
This report presents our five year internal audit plan 2015 to 2020. The internal audit plan is updated annually, using a five year planning horizon. We meet regularly with CBMDC Internal Audit Team to plan each audit, review and agree internal audit recommendations, and provide updates on implementation of recommendations.

Recommendation:

The five year internal audit plan be noted by the Local Pension Board.

Rodney Barton
Director

Report Contact: Ola Ajala
Financial Controller WYPF
Phone: (01274) 434 534
E-mail: ola.ajala@bradford.gov.uk

Portfolio:
Leader of Council & Strategic Regeneration

Overview & Scrutiny Area: n/a

1. **BACKGROUND**

1.1 In November 2015 the Local Pension Board considered a report on review of internal and external audit reports and requested that the internal audit plan be presented. Attached as Appendix 1 to this report is the WYPF - five year internal audit plan 2015 – 2020.

1.2 The plan is the result of regular audit reviews and meetings with the Internal Audit Manager during the year, resulting in a final meeting on 14 January 2016. The five year plan was reviewed by WYPF Senior Management Team on 26 January 2016.

1.3 All internal audit reports are circulated to and reviewed by WYPF Senior Management, CBMDC Finance Director and CEO. A report is also provided to CBMDC Governance and Audit Committee on progress made by services in implementing internal audit recommendations.

2. APPENDIX

Appendix A - WYPF five year internal audit plan 2015 - 2020

West Yorshire Pension Fund
Five Year Audit Plan

APPENDIX 1

Job No	Audit Title	% of Fund Portfolio	Expected Frequency	Date of Last Audit Report	Audit Opinion	No. of Agreed Rcmndtns	Time Allocation	2015/16	2016/17	2017/18	2018/19	2019/20
Standard Audits												
82050	**Annual Accounts Verification**		Annual	18/06/2015	None	1	10	✓	✓	✓	✓	✓
Benefits												
80012	**Local Government Scheme Contributions**		Every 2 Years	11/12/2014	Good	1	20		✓		✓	
	New Pensions and Lump Sums - WYPF											
80055	**- Normal and Early Retirements**		5 Yearly	30/03/2015	Excellent	0	20					✓
80046	**- Death in Service, Post Retirement Widon and Dependent Benefits**		5 Yearly	07/02/2012	Excellent	0	20		✓			
80022	**- Ill Health Pensions**		5 Yearly	15/10/2013	Good	2	20				✓	
80038	**- Flexible Retirements**		5 Yearly	05/10/2009	Good	1	20	✓				
80005	**- Deferred Pensions**		5 Yearly	10/12/2012	Satisfactory	4	20			✓		
80013	**Transfers Out**		3 Yearly	09/12/2014	Good	1	15			✓		
80018	**Transfers In**		3 Yearly	08/05/2013	Excellent	0	15		✓			✓
80010	**Reimbursement of Agency Payments**		5 Yearly	13/11/2015	Satisfactory	5	15	✓				
80047	**Life Certificates**		5 Yearly	07/10/2015	Excellent	0	10	✓				
80011	**AVC Arrangements**		5 Yearly	22/05/2015	Excellent	0	10	✓				
80041	**Admission of New Bodies**		5 Yearly	06/01/2015	Excellent	0	15					✓
80040	**Pensioners Payroll**		Twice in 5 Years	12/02/2014	Good	1	20	✓			✓	
80049	**Purchase of Additional Pension**		5 Yearly	13/03/2012	Good	1	10		✓			

West Yorshire Pension Fund
Five Year Audit Plan

Job No	Audit Title	% of Fund Portfolio	Expected Frequency	Date of Last Audit Report	Audit Opinion	No. of Agreed Rcmndtns	Time Allocation	2015/16	2016/17	2017/18	2018/19	2019/20
80008	**Annual Benefits Statements**		Twice in 5 Years	14/03/2014	Good	2	10		✓			✓
80019	**New Pensions and Lump Sums - Fire Service**		3 Yearly	13/02/2013	Excellent	0	15	✓			✓	
Investments												
82012	**UK and Overseas Equities**	67.80%	Annual	30/11/2015	Excellent	0	15	✓	✓	✓	✓	✓
82043	**UK Fixed and Index Linked Public and Corporate Bonds**	13.20%	3 Yearly	23/07/2010	Excellent	0	15			✓		✓
82037	**UK Unit Trusts (Property and Other)**		5 Yearly				15			✓		
	Direct Property	4.80%	2 Yearly				15		✓			✓
	Foreign Unit Trusts (Property and Other)		5 Yearly				15					✓
82034	**Fund of Hedge Funds**	2.20%	3 Yearly	24/04/2013	Good	3	15	✓		✓		
82047	**UK and Overseas Private Equities**	4.80%	3 Yearly	04/07/2012	Excellent	0	15	✓			✓	
82020	**Global Bonds**	2.50%	5 Yearly	18/09/2013	Excellent	0	15				✓	
82046	**Cash Treasury Management (Short Term Lending)**	2.30%	Annual	19/01/2015	Excellent	0	15	✓	✓	✓	✓	✓
82044	**Stock Lending**		3 Yearly	19/06/2014	Excellent	0	15			✓		✓
82027	**Compliance with IAP Investment Decisions and Policies**		3 Yearly	31/03/2014	Excellent	0	15		✓			

West Yorshire Pension Fund
Five Year Audit Plan

Job No	Audit Title	% of Fund Portfolio	Expected Frequency	Date of Last Audit Report	Audit Opinion	No. of Agreed Rcmndtns	Time Allocation	2015/16	2016/17	2017/18	2018/19	2019/20
82014	**Verification of Assets**		5 Yearly	05/02/2015	Excellent	0	15			✓		
Other Audits												
One Off Audits Benefits												
80050	**Transfer of Data to Pensions System**			02/07/2012	Excellent	0						
80056	**Monthly Contribution Data Usage**			20/08/2015	Good	6						
One Off General												
	WYPF ICT						15				✓	

Excellent	**16**	**59%**
Good	**9**	**33%**
Satisfactory	**2**	**7%**
Limited Assurance	**0**	**0%**
No Assurance	**0**	**0%**
Total	**27**	**100%**

	2015/16	2016/17	2017/18	2018/19	2019/20
Planned Total	**Days 160**	**Days 145**	**Days 150**	**Days 160**	**Days 160**

This page is intentionally left blank

City of Bradford MDC
www.bradford.gov.uk

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund, Pension Board to be held on 16 March 2016.

R

Subject: Training, Conferences, Seminars

Summary statement:

The training of Pension Board members to understand their responsibilities and the issues they are dealing with is a very high priority. Details of training courses, conferences and seminars listed may assist Board Members. Full details about each event will be available at the meeting for anyone interested.

Recommendations:

Consideration is given to attendance by Board Members at the events in Section 1

Dates of future meetings are noted.

Rodney Barton
Director

Report contact: Caroline Blackburn

Phone: (01274) 434523
E-mail: caroline.blackburn@wypf.gov.uk

Portfolio:

Leader of Council & Strategic Regeneration

Overview & Scrutiny Area: n/a

1. Training Events

1.1 If any Pension Board member would like any specific training through one to one meetings with the in-house team, then this can be arranged.

1.2 Pension Board members should consider the following events.

SPS Local Authority Pension Investment Strategies and Current Issues
Le Meridien Piccadilly, London 17 March 2016

2016 LGPS Trustees Conference
Macdonald Hotel and Spa, Manchester – 23 and 24 June 2016
Please see Appendix A with details of the draft conference agenda.

Members can also make use of the web based training provided by:

The Pensions Regulator, which can be found at:
www.thepensionsregulator.gov.uk/public-service-schemes.aspx

Standard Life Learning Gateway
Web based training provided by Standard Life
http://sliglobaluk.intuition.com/SignIn.aspx?action=s

2. Dates of future meetings

- 9 November 2016 (Wednesday)
- 19 April 2017 (Wednesday)

3. Appendix

Appendix A – LGPS Trustees Conference Details

The Local Government Pensions Committee
Secretary: Jeff Houston

CIRCULAR

Please pass on sufficient copies of this Circular to your Treasurer/Director of Finance and to your Personnel and Pensions Officer(s) as quickly as possible

No. 295 – FEBRUARY 2016

13th ANNUAL LGPS "TRUSTEES" CONFERENCE

Purpose of this circular:

1. This Circular has been issued to give **advance notice** of the thirteenth Annual LGPS Trustees' conference organised by the Local Government Pensions Committee (LGPC).

Background:

2. Responding to numerous requests from elected members, the LGPC staged an inaugural trustees' conference at York back in September 2003. The conference was specifically aimed at elected members with responsibility for the Local Government Pension Scheme in their area, and a number of speakers addressed issues from a "trustee" perspective. It has since become a popular annual event.

Local Government House, Smith Square, London SW1P 3HZ **T** 020 7664 3000
F 020 7664 3030 **E** info@local.gov.uk www.local.gov.uk

Intended Audience

3. Delegate places have never been restricted to elected members only; indeed the conference has been attended by many officers who either support pension committees or hold pension fund investment or administration responsibilities, along with trade union and other scheme member representatives. Indeed, from 2015 onwards, it is also of interest to local pension board members.

Venue and Programme

4. The conference programme will have its popular lunchtime-to-lunchtime format commencing on Thursday 23rd and concluding on Friday 24th June 2016. Having previously been held at numerous locations across Great Britain (e.g. Sheffield in 2013, Bournemouth in 2014, Cardiff in 2015), the conference heads North this year to the Macdonald Hotel and Spa in Manchester.

5. The conference is **not** bookable at this stage - the programme is yet to be finalised and a further Circular will be issued before Easter 2016 which will include a full programme of events. As pooling of investments is to the forefront of everyone's mind presently, the conference is themed "In at the deep end" and topics likely to be included are:

   Submissions to the pooling agenda

   Investment Manager selection going forward

   Cessation of contracting-out, liability for pensions increases

   Investment cost transparency

   2016 and English/Welsh Valuations / cost management

   Pensions Tax – implications for the LGPS

   MIFIDII + IORPII = ? *(answers on a postcard please)*

6. If you wish to discuss speaking or sponsorship opportunities, please contact the Pensions Training and Development Manager in the first instance by email to tim.hazlewood@local.gov.uk

7. If you want to register your interest in attending this year's conference, please send a short-email with "Annual Trustee Conference" in the subject line to Elaine.english@local.gov.uk who will make sure you receive the circular as soon as it is issued (as places are always on a strictly first-come, first-served basis).

ACTIONS FOR ADMINISTERING AUTHORITIES

8. Administering Authorities are urged to bring this Circular to the attention of all Pension Committee/Panel members, members of the new local pension boards and those who attend/advise the meetings, sub-committees etc.

Tim Hazlewood
Pensions Training and Development Manager
8 February 2016

Distribution sheet

Local authorities who have registered for notification of Circulars
Pension managers (internal) of administering authorities
Pension managers (outsourced) and administering authority client managers
Officer advisory group
Local Government Pensions Committee
Trade unions
DCLG
COSLA
SPPA
Regional Directors
Private clients
Website

Visit the LGA's website at: www.local.gov.uk

Copyright

Disclaimer

The information contained in this Circular has been prepared by the LGPC Secretariat, a part of the LGA. It represents the views of the Secretariat and should not be treated as a complete and authoritative statement of the law. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed by the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in this Circular. Whilst every attempt is made to ensure the accuracy of the Circular, it would be helpful if readers could bring to the attention of the Secretariat any perceived errors or omissions. Please write to:

LGPC
Local Government House
Smith Square
London
SW1P 3HZ

Or email: tim.hazlewood@local.gov.uk

Or telephone: 01455 824850