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Agenda for a meeting of the West Yorkshire Pension Fund Pension Board to be held on Wednesday, 9 November 2016 at 10.00 am in Aldermanbury House, 4 Godwin Street, Bradford BD1 2ST

Members of the Committee

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

Notes:

- This agenda can be made available in Braille, large print or tape format on request by contacting the Agenda contact shown below.
- 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.
- If any further information is required about any item on this agenda, please contact the officer named at the foot of that agenda item.

From:
Parveen Akhtar
City Solicitor
Agenda Contact:
Phone:
E-Mail:

To:

A. PROCEDURAL ITEMS

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 1 - 8

Recommended –

That the minutes of the meeting held on 16 March 2016 be signed as a correct record (previously circulated).

(Jane Lythgow – 01274 432270)

3. INSPECTION OF REPORTS AND BACKGROUND PAPERS

(Access to Information Procedure Rules – Part 3B of the Constitution)

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 Strategic Director or Assistant Director whose name is shown on the front page of the report.

If that request is 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)

B. BUSINESS ITEMS

4. NEW BOARD MEMBERS TERMS OF OFFICE

The Chair will report the names of new members of the West Yorkshire Pension Board.

Members will be asked to agree the terms of office for new members to the West Yorkshire Pension Fund Board.

5. INVESTMENT REFORM CRITERIA AND GUIDANCE - INVESTMENT POOLING 9 - 56

The Director, West Yorkshire Pension Fund, will present a report, (**Document "A")** which explains that, in the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. On 25 November the Investment Reform Criteria and Guidance were issued, which sets out the criteria to be applied to the pooling of LGPS assets. Authorities were invited to submit their initial proposals for pooling by 19 February 2016. West Yorkshire Pension Fund (WYPF) together with Greater Manchester and Merseyside duly submitted its proposals by the deadline. The submission and the Minister's response are on the WYPF website. A more comprehensive proposal has been submitted to the Government on 15 July 2016. This submission will be assessed against the criteria in this document.

The Merseyside Local Pensions Board (LPB) considered pooling arrangements at its meeting in April, and requested that its resolution

be considered by the Local Pension Boards of the other two members of the Northern Pool. The resolution is attached as Appendix F to Document "A".

Recommended -

1. **That the submission to the Government, contained in Document "A", and the continued development of pooling arrangements, subject to the Government response, be noted.**

2. **That the Merseyside LPB resolution, contained in Document "A" be considered.**

(Rodney Barton – 01274 432317)

6. THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016 — 57 - 62

The Director, West Yorkshire Pension Fund, will present Document "B" which advises Members that the Department for Communities and Local Government (DCLG) has laid The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which enable the pooling of investments.

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

- The introduction of an Investment Strategy Statement (replacing the Statement of Investment Principles) and the removal of the prudential limits.
- The requirement for funds to pool their assets.
- The introduction of 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.

Recommended –

That it be noted that the the Regulations do not cause any concerns on the matters pertaining directly to investments, but that there have been no restrictions applied to the power of the Secretary of State to intervene in local authorities investment decisions, which does not support the policy objective of making local authorities clearly accountable for their decisions by removing the schedule of investment limits.

(Rodney Barton – 01274 432317)

7. ACTUARIAL VALUATION 2016 63 - 66

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

Recommended –

That the report be noted.

(Caroline Blackburn – 01274 432317)

8. REGISTER OF BREACHES OF THE PENSIONS REGULATOR'S CODE OF PRACTICE 67 - 74

The Director, West Yorkshire Pension Fund, will present **Document "D**" which reports that, in accordance with the Public Service Pensions Act 2013, 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) imposes a requirement to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

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

A register of any breaches of the Pensions Regulator's Code of Practice is maintained in accordance with the WYPF Breaches procedure.

Recommended –

That the entries on the Register of Breaches of the Pensions Regulator's Code of Practice, all of which relate to late payment of contributions by employers, and that the action taken in each case is noted as part of the entry, be noted.

(Caroline Blackburn – 01274 434523)

9. CONSULTATION ON AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME 2014 75 - 78

The report of the Director, West Yorkshire Pension Fund, (**Document "E**") updates Members on changes and proposed changes to the Local Government Pension Scheme (LGPS) 2014 to implement the Fair Deal for staff transferring out of the public sector, freedom of choice access to Additional Voluntary Contribution pots and a number of technical amendments required for efficient administration.

Recommended –

That the report be noted.

(Tracy Weaver – 01274 433571)

10. UPDATE ON THE GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION EXERCISE. 79 - 80

The report of the Director, West Yorkshire Pension Fund, (**Document "F**") provides an update on the Guaranteed Minimum Pension (GMP) Reconciliation Exercise. The report explains that the 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, and is planned to begin in January 2017.

Recommended –

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

(Grace Kitchen – 01274 434266)

11. WEST YORKSHIRE PENSION FUND JOINT ADVISORY GROUP MINUTES 28 JULY 2016 81 - 92

The report of the Director, West Yorkshire Pension Fund, (**Document "G**") reminds Members that 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 submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Recommended –

That the minutes of the West Yorkshire Pension Fund Joint Advisory Group, meeting held on 28 July 2016, be reviewed.

(Rodney Barton – 01274 432317)

12. TRAINING, CONFERENCES AND SEMINARS 93 - 94

The Director, West Yorkshire Pension Fund, will present a report (**Document "H**") which informs Members that their training to understand the responsibilities and issues which they will be dealing with is a very high priority.

Recommended –

That consideration be given to attendance to the training events contained in Document "H".

(Caroline Blackburn – 01274 434523)

13. EXCLUSION OF THE PUBLIC

Members are asked to consider if the item relating to the West Yorkshire Pension Fund Investment Advisory Panel 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 28 April 2016 and 28 July 2016 because information would be disclosed which is considered to be exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the financial implications of any decision without prejudicing the financial position of the West Yorkshire Pension Fund.

14. MINUTES OF THE WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 28 APRIL 2016 AND 28 JULY 2016 95 - 96

The report of the Director, West Yorkshire Pension Fund, (**Document "I**") reminds Members that the role of the West Yorkshire Pension Fund 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 Investment Advisory Panel will be submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Recommended –

Members are requested to review the Not for Publication minutes appended to Document "I".

(Rodney Barton – 01274 432317)

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

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Minutes of a meeting of the West Yorkshire Pension Fund Pension Board on Wednesday 16 March 2016 at West Yorkshire Pension Fund, Aldermanbury House, Bradford

Commenced 1040
Concluded 1130

PRESENT

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

19. **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

20. **MINUTES**

Resolved –

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

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

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

22. 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**"), 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 explained that the new regulations broadly simplified what was already in place with the addition of powers allowing the Secretary of State to intervene in some circumstances. Currently the fund adhered to a long list of limits which had been in place in their current form for a number of years. Pension Funds, at each review, had recommended that those limits should be eliminated and funds allowed to make their own decisions. That was the way in which al private sector trust schemes were allowed to operate and it had been argued that rules should be applied on a similar basis to Local Government schemes.

Members were advised that the WYPF's response to the consultation, appended to Document "N", had shown that although generally happy with the changes to the basic regulations there was concern that introducing a power of direction for the Secretary of State was completely contrary to the principle behind the changes to the regulations, increasing local discretion and accountability. It was explained that from discussions with civil servants it appeared that the Secretary of State's intention was quite narrow; however, that power could be used by subsequent ministers for different purposes. It was understood that those powers were being taken to enforce the pooling arrangements and, therefore, the regulations were unlikely to be withdrawn.

Members questioned if there were limits on particular investment classes and were advised that, although there were limits, the WYPF had a range of values within each investment class and had been operating on that basis since the 1990s. It was reiterated that the fund were quite happy with the basic regulations but not comfortable with the Secretary of State's powers to dictate how pension funds invest their money.

It was questioned if there had been any response to the fund's response to the consultation. Members were advised that there had been a vague promise that there may be some announcement in the budget taking place later in the day. A written response was expected later to both the individual response and joint response which had been made with Tameside Metropolitan Borough Council, Wirral Metropolitan Borough Council and Greater Manchester Pension Fund.

Members questioned the implications of individual funds performing badly in future pooled arrangements. It was clarified that although assets would be compiled in a pool each individual fund would own their own assets within that pool. Assets would not increase or decrease because they were pooled. Investment decisions would be taken by investment professionals. The reality would be that there would be very little difference with the new arrangements. One advantage to under performing funds would be that they would have access to a greater degree of technical expertise within the pool. In smaller pools, without the benefit of internal investment professionals, reliance was placed on paid consultants. Some funds had over 20 separate external managers and that could be very costly.

Potential increases in costs following the pooling arrangements were discussed and it was explained that as the lowest cost provider of service at the moment anything done differently would accrue costs. Working with other funds would add to expenditure. It was not felt that a pool would provide any initial benefits on a day to day basis, however, there was some potential for savings on alternative investments as better deals could be

negotiated. The savings would be seen in a few years time when the cost of setting up the pool and governance arrangements had been met. It was intended that people would be nominated to serve on a pool management committee. WYPF's representative would be decided by the WYPF Investment Advisory Panel. Assurances were provided that WYPF would decide how its own funds were invested within the pool unless it made a different decision which said the pool should invest in best manner according to mandate from West Yorkshire.

Resolved –

That the 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).**

be noted.

ACTION: Director, West Yorkshire Pension Fund

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

Members were aware that the role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 was 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 were appended to the report of the Director, West Yorkshire Pension Fund, (**Document "O")** 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.

Members were reminded that the actuarial valuation, a three yearly exercise, had to be completed by 31 March 2017. Meetings had been held with the actuary to discuss the exercise and Terms of Reference and details of the timetable to achieve that completion date had been received. It was clarified that it was planned to submit the required data to the Actuary by the end of June 2016, two months earlier than previous processes. It was anticipated that WYPF would therefore be in a position to start to notify employers of employer rates between November 2016 and January 2017.

Lincolnshire Pension Fund (LPF) valuation exercise had been timetabled so that data would be completed for WYPF first. It was believed that WYPF data preparations would run more easily and that had been the rationale for the timetable chosen.

The increase in employers was increasing the size of WYPF and, in response to questions, it was confirmed that there were currently 227 employers and 90,000 members in the LPF and when added to the size of the WYPF there were over 300,000 members

and a total of 627 employers. If fire authorities were added membership would increase to 400,000 and increases from schools attaining academy status were expected. It was confirmed that two additional fire authorities were joining the fund from April 2016 bringing the total to seven and it was acknowledged that the quality of WYPF processes had been demonstrated by the outcome of that competitive tender processes. In anticipation of increase workloads all unfilled vacancies had been retained in the staffing structure.

Resolved –

That the minutes of the WYPF Joint Advisory Group on 28 January 2016 be noted.

ACTION: Director, West Yorkshire Pension Fund

24. GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION EXERCISE

The report of the Director, West Yorkshire Pension Fund, (**Document "P**") informed 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.

Members were reminded that 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.

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 was called the Guaranteed Minimum Pension (GMP). Only members with service from 6 April 1978 to 5 April 1997 will have accrued a GMP.

A condition imposed on the LGPS regarding the contracted out portion, was 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.

Her Majesty's Revenue and Customs (HMRC) notified all schemes of each member's individual GMP entitlement based on their own records of the member's national insurance contributions. In the vast majority of cases, the pension paid by the LGPS was higher than the additional element that the member would have earned in the SERPS scheme, and as such, their GMP had already been incorporated within their LGPS pension.

The reconciliation exercise was designed to allocate all GMP liabilities to the correct fund before the deadline in 2018, after which, the relevant fund that held the record would be liable for pension inflation increases. The amount of the GMP would contribute towards the calculation of the members' benefits in the new state pension system which would begin on 6 April 2016.

It was confirmed that strict attention had always been paid to records and officers were confident that WYPF would be able to identify its own liabilities. At end of the exercise people would be allocated a pot of money in the state pension scheme to cover the period they have been 'contracted out'. Once the first exercise to liabilities had been completed GMP rectification would begin. That would identify any under or over payments of pension.

The information being communicated to WYPF scheme members was questioned and assurances were provided that members with a guaranteed pension had been informed. Various working parties were discussing different elements of the reconciliation exercise and were looking at under and over payments with a view that if the amounts were significant members would be contacted. The intention was that HMRC would write to members. The reconciliation exercise would run until 2018 and there was to be consultation about updating GMP for people reaching pension age. Members in a contracted out scheme would incur a deduction to their state pension.

A newsletter was being despatched within the next couple of weeks to members and would include a letter to explain why WYPF were no longer a contracted out scheme and include information for frequently asked questions.

Resolved –

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

(2) That the Director, West Yorkshire Pension Fund be requested to provide an update report on progress on the reconciliation exercise at the next meeting.

ACTION: Director, West Yorkshire Pension Fund

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

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

It was explained that regular meetings with the Internal Audit team were held to plan each audit, review and agree internal audit recommendations, and provide updates on implementation of recommendations.

The forthcoming pooling arrangements were discussed and it was questioned if it would be beneficial for the Internal Audit team to consider those arrangements. It was explained that until the pooling arrangements were finalised it could not be decided how the audit would be conducted.

Resolved –

That the five year internal audit plan be noted.

ACTION: Director, West Yorkshire Pension Fund

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

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

The fund's Technical and Development Manager confirmed that a conference attended regularly by the Joint Advisor Group was the Annual Trustees Conference which was a two day course being held in Manchester. A venue and short programme was appended to Document "R" and members were requested to make contact if they wished to attend. It was confirmed that officers would also be in attendance to provide support and it was believed that the conference would be helpful for members.

It was also confirmed that, in an attempt to identify any gaps in knowledge, within the next couple of months, a training needs analysis would be forward to members of the Pension Board. The analysis would include topics it was believed would be helpful to members and would allow them the opportunity to consider if they were fully briefed on those issues or if additional support would be required. Training could be planned to address any knowledge gaps and could be provided individually or collectively. Members would be asked to complete the analysis and return to the fund's Technical and Development Manager or to visit Aldermanbury House to discuss and complete that document with officers. The training needs analysis would facilitate the development of formal training plans.

Members requested that training on the investment reform (pooling) arrangements be provided and it was agreed that support for members to understand the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 would be provided.

The report also informed Members of the scheduled dates of the next two WYPF Pension Board meetings. Members were also asked to identify, in their role as scrutinisers, any topics they would like to be considered at future meetings. It was agreed that training could also be provided around any such themes if required.

Resolved –

(1) That the Training Analysis be noted and attendance at the events set out in Document "R" including the Valuation Training Event on 28 January 2016 be considered.

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

ACTION: Director, West Yorkshire Pension Fund

27. EXCLUSION OF THE PUBLIC

The Committee was 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:-

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 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.

ACTION: Interim City Solicitor

28. 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, submitted **Not for Publication Document "S**", which provided 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.

Resolved –

That the resolution contained in Not for Publication Document "S" 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.

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City of Bradford MDC
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Report of the Director West Yorkshire Pension Fund to the meeting of the Local Pension Board to be held on 9 November 2016.

A

Subject:

Investment Reform Criteria and Guidance – Investment Pooling

Summary statement:

In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. On 25 November the Investment Reform Criteria and Guidance were issued, which sets out the criteria to be applied to the pooling of LGPS assets. Authorities were invited to submit their initial proposals for pooling by 19 February 2016. West Yorkshire Pension Fund (WYPF) together with Greater Manchester and Merseyside duly submitted its proposals by the deadline. The submission and the Minister's response are on the WYPF website. A more comprehensive proposal has been submitted to the Government on 15 July 2016. This submission will be assessed against the criteria in this document.

The Merseyside Local Pensions Board (LPB) considered pooling arrangements at its meeting in April, and requested that its resolution be considered by the Local Pension Boards of the other two members of the Northern Pool. The resolution is attached as Appendix F

Recommendation
That the Panel:

- Note the submission, and the continued development of pooling arrangements, subject to the Government response.
- Consider the Merseyside LPB resolution

Rodney Barton
Director

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

1. **Background**

1.1 In the summer Budget 2015, the Chancellor announced the intention to invite administering authorities to bring forward proposals for pooling Local Government Pension Scheme investments, to deliver significantly reduced costs while maintaining overall investment performance.

1.2 The Scheme is currently organised through 89 separate local government administering authorities and the closed Environment Agency scheme, which each manage and invest their assets largely independently. The Government believes that, working together, authorities have a real opportunity to realise the benefits of scale that should be available to one of Europe's largest funded pension schemes, and the creation of up to six "British Wealth Funds", each with at least £25bn of Scheme assets, will not only drive down investment costs but also enable the authorities to develop the capacity and capability to become a world leader in infrastructure investment and help drive growth.

2. **Pooling Criteria**

2.1 Authorities are to suggest how their pooling arrangements will be constituted and operate. In developing proposals, they should have regard to each of the four criteria, which are designed to be read in conjunction with the supporting guidance.

2.2 Asset pools should achieve the benefits of scale. The 90 administering authorities in England and Wales should collaborate to establish and invest through asset pools, each with at least £25bn of Scheme assets. The proposals should describe these pools, explain how each administering authority's assets will be allocated among the pools, describe the scale benefits that these arrangements are expected to deliver and explain how those benefits will be realised, measured and reported. Authorities should explain:

2.2.1 The size of their pool(s) once fully operational.

2.2.2 In keeping with the supporting guidance, any assets they propose to hold outside the pool(s), and the rationale for doing so.

2.2.3 The type of pool(s) they are participating in, including the legal structure if relevant.

2.2.4 How the pool(s) will operate, the work to be carried out internally and services to be hired from outside.

2.2.5 The timetable for establishing the pool(s) and moving their assets into the pool(s). Authorities should explain how they will transparently report progress against that timetable.

2.3 The pools must deliver strong governance and decision making. The proposed governance structure for the pools should:

2.3.1 At the local level, provide authorities with assurance that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members;

2.3.2 At the pool level, 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.

2.4 Authorities should also revisit their internal processes to ensure efficient and effective decision making and risk management, while maintaining appropriate democratic accountability. Authorities should explain:

2.4.1 The governance structure for their pool(s), including the accountability between the pool(s) and elected councillors, and how external scrutiny will be used.

2.4.2 The mechanisms by which the authority can hold the pool(s) to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed.

2.4.3 Decision making procedures at all stages of investment, and the rationale underpinning this.

2.4.4 The shared objectives for the pool(s), and any policies that are to be agreed between participants.

2.4.5 The resources allocated to the running of the pool(s), including the governance budget, the number of staff needed and the skills and expertise required.

2.4.6 How any environmental, social and corporate governance policies will be handled by the pool(s).

2.4.7 How the authorities will act as responsible, long term investors through the pool(s), including how the pool(s) will determine and enact stewardship responsibilities.

2.4.8 How the net performance of each asset class will be reported publically by the pool, to encourage the sharing of data and best practice.

2.4.9 The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool(s), for example by undertaking the Scheme Advisory Board's key performance indicator assessment.

2.5 Authorities are to be seeking to achieve reduced costs and excellent value for money. In addition to the fees paid for investment, there are further hidden costs that are difficult to ascertain and so are rarely reported in most pension fund accounts. To identify savings, authorities are expected to take the lead in this area and report the costs they incur more transparently. Proposals should explain how the pool(s) 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.

2.6 Active fund management should only be used where it can be shown to deliver value for money, and authorities should report how fees and net performance in each listed asset class compare to a passive index. In addition authorities should consider setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period, rather than solely focusing on short term performance comparisons.

2.7 As part of their proposals, authorities should provide:

2.7.1 A fully transparent assessment of investment costs and fees as at 31 March 2013.

2.7.2 A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.

2.7.3 A detailed estimate of savings over the next 15 years.

2.7.4 A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.

2.7.5 A proposal for reporting transparently against their forecast transition

2.8 Authorities are to be seeking to achieve an improved capacity to invest in infrastructure. Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure; pooling of assets may facilitate greater investment in this area. 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.

2.9 Authorities should explain:

2.9.1 The proportion of their fund currently allocated to infrastructure, both directly and through funds, or "fund of funds".

2.9.2 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.

2.9.3 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.

3. Development of the Northern Pool (NP)

3.1 The original NP proposals are described in the 19 February submission, which is attached to this report as Appendix C. The Minister's response is attached as Appendix D.

3.2 In the light of the minister's response, the revised proposals are that the NP will establish a Joint Committee, and a company will be established as an Alternative

Investment Fund Manager (AIFM), which will be approved by the Financial Conduct Authority (FCA), which will have operational responsibility for the day to day management of the investments, and appointment of external managers. The existing investment staff will work for the AIFM.

3.3 Individual funds will retain their current role of asset allocation and investment policy, and will delegate the implementation of that policy to the Joint Committee.

3.4 The Joint Committee will have responsibility for ensuring that the AIFM has the appropriate structure and resources to implement the policy required by each fund, and will hold the company to account for delivery of the policy, and performance commensurate with the agreed risk for each asset class.

3.5 The AIFM will be responsible for the day to day management of investments, including the internal management of quoted investments, unquoted directly held assets, such as property and infrastructure, as well as the appointment of external managers for quoted investments and other asset classes as determined by the Joint Committee.

3.6 The Joint Committee, which will probably consist of two Members appointed by each Fund plus a trade union representative from each fund's region, will not have any direct involvement in the appointment of managers, or any other matters delegated to the AIFM. Its role will be to determine the asset class, risk profile, and whether management is internal or external, in accordance with the investment policy set by each fund.

4. Progress to Date

4.1 The long term vision for the pool is to provide access to

- a range of internal and externally managed listed assets at low cost
- collective investment in alternatives, while building skill to enable cost reduction by increasing direct access
- working arrangements with other pools where greater size may add value.

4.2 The investment philosophy is to maintain simple arrangements, with a relatively low number of managers, low manager and portfolio turnover, an increasing proportion of assets managed internally within the pool, while individual funds will retain the ability to select asset class, territory, and active or passive management.

4.3 Officers of the three funds have been meeting weekly to develop the submission (Appendix A) and have had regular briefings for senior Members of each Fund. Further legal and financial advice has been obtained to support the NP in meeting the criteria and minimising costs. The executive summary of the PWC report is attached as Appendix B.

4.4 As part of the preparation for NP, WYPF and Merseyside Pension Fund have approved a commitment in principle to committing £250m each to the GMPF & LPFA Infrastructure LLP (GLIL). GLIL is a joint venture between the Greater Manchester Pension Fund (GMPF) and London Pensions Fund Authority (LPFA) focused on UK

infrastructure assets. The Partnership was formed in April 2015 as a limited liability partnership (LLP) and seeded with £500m of commitments from the two pension funds. GLIL's investment committee is made up of members from each funds' investment teams. This may form part of a national solution to increasing commitments to infrastructure.

4.5 To date GLIL have completed two investments: a £60m investment in renewable energy (October 2015) and a £150m investment into one of Europe's largest wind farms (March 2016).

4.6 It is therefore recommended that the IAP approve this in principle and that due diligence is undertaken as usual for such commitments.

5. **Issues for WYPF**

5.1 The principle issue for WYPF in any pooling arrangement is going to be the ability to maintain our very low cost base. To achieve this we must ensure that any arrangement we enter maintains the very high standard of governance that has been exercised over the fund for many years, and the commitment to internal management, which has delivered consistent outperformance over many years at an exceptionally low cost.

5.2 If we are compelled to go down the regulated route, which is the implication of the Minister's comments in his letter (Appendix D), there is no question that it will increase the WYPF cost base, a cost which will ultimately fall on the local Council Tax Payers. Because of these concerns, WYPF submitted another letter on 15 July (Appendix E), when the joint submission was made, making these concerns clear.

5.3 We believe that alongside the funds we are currently working with, we will be able to reach a satisfactory solution, and in the long term improve the result for WYPF.

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26 October 2016

Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	Northern Pool ('the Pool')
Participating authorities	**City of Bradford MDC** – administering authority for West Yorkshire Pension Fund ('WYPF'); **Tameside MBC** – administering authority for Greater Manchester Pension Fund ('GMPF') **Wirral MBC** – administering authority for Merseyside Pension Fund ('MPF')

Criterion A: Asset pools that achieve the benefits of scale

1. The size of the pool once fully operational.	
(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	£35.416bn All assets other than day-to-day cash will be invested via the pool once transition is complete. Day-to-day cash assumed to be 1% of total assets.

2. Assets which are proposed to be held outside the pool and the rationale for doing so.
(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).
Total Value £0.357bn Asset types: 1. Cash used for day to day scheme administration purposes (contributions received, payment of pensions, retirement lump sums, invoices etc…)

(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.	Attached as: ANNEX A1a) WYPF ANNEX A1b) GMPF ANNEX A1c) MPF

3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

All Pool assets will be managed by an operating company (the 'Investment Management Company') which will seek authorisation from the Financial Conduct Authority ('FCA') to operate as an Alternative Investment Fund Manager ('AIFM'). Authorisation as and AIFM will allow the Pool to operate collective investment vehicles in alternative asset classes. The Pool may also seek MiFID-type permissions from the FCA as appropriate. The 3 participating authorities will own equal share capital in the Investment Management Company.

- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.

For the immediate future after inception of the Pool, listed assets will continue to be held in segregated mandates owned directly by the participating authorities, but managed by the Investment Management Company. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

In preparing this submission considerable thought has been given to determining the most appropriate legal structure for the ownership of the Pool's listed assets in order to best achieve all four criteria set by Government. Our understanding is that many other LGPS pools will be establishing an Authorised Contractual Scheme ('ACS'). However, due to the scale of the existing

mandates (GMPF has a c£6bn external balanced mandate and WYPF internally manages c£9bn of listed assets), limited overlap between mandates and low-cost, low turnover approach of the Pool, holding listed assets in an ACS is not currently the most cost effective approach for the Pool.

The report from PwC (attached as ANNEX A2 to this submission) provides an analysis of the cost differentials between:

a) establishing and operating an Authorised Contractual Scheme ('ACS') and;

b) the Pool's preferred segregated mandate approach.

The set up costs of option b) are between £4.2m and £8.4m lower than option a), with ongoing costs of option b) £1.35m p.a. lower.

This approach will be reviewed periodically going forwards, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally.

All non-listed assets will be managed by the Pool from 1 April 2018. New investments (i.e. those entered into after 1 April 2018) in non-listed assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy (i.e. those entered into prior to the formation of the Pool) non-listed assets will be run-off on a segregated basis.

- The composition of the supervisory body.

An Oversight Board will be established to:

i) provide oversight of the Investment Management Company and its directors; and

ii) act as a forum for the participating authorities to express the views of their pension committees.

The Oversight Board's primary roles are to ensure that the Investment Management Company is effectively implementing the participating authorities' strategic asset allocations and to oversee how the Investment Management Company reports to the participating authorities' pension committees.

The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Investment Management Company. The Oversight Board will not be undertaking any regulated activities. Each participating authority will nominate 3 representatives (which may include representatives of trade unions) to sit on the Oversight Board, in order to create a Board of 9 members. The Oversight Board needs at least one representative of each participating authority to be present in order to be quorate. The Board elects a chair and a vice chair on an annual basis. No independent members are included as voting members, but external advisors will be appointed and leading pensions officers at each participating authority will attend Board meetings.	
Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.	All authorities participating in the Pool have signed up to this submission to Government. Once feedback on this submission is received the participating authorities will be formally asked to sign-off the resulting changes to governance arrangements.

4. How the pool will operate, the work to be carried out internally and services to be hired from outside.
Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.
(a) To operate in-house (for example if the pool will have internal investment management from inception): 1. Implement the strategic asset allocations of the participating authorities (with effect from April 2018) • The Investment Management Company and its investment committee(s) will select

investment managers (either internal or external) to manage assets on behalf of the Pool and the participating authorities and approve the investment management agreements and investment guidelines for the chosen mandates.

2. Management of UK and Overseas equities and bonds (with effect from 1 April 2018).
   - Participating authorities in the Pool currently internally manage around £10bn of listed assets. The expectation is that the proportion of listed assets which are internally managed by the Pool will increase over time.
3. Selection of private equity, infrastructure & property funds (with effect from 1 April 2018)
   - All 3 participating authorities currently internally select a substantial proportion of their new fund commitments in these asset classes. The expectation is that following the inception of the Pool a greater proportion of the investment in these asset classes will be internally selected (including co-investment) rather than invested via a 'fund-of-funds' approach.
4. Direct UK infrastructure investment via 'GLIL' vehicle - (Merseyside Pension Fund and West Yorkshire Pension Fund to join Greater Manchester Pension Fund in GLIL vehicle from autumn 2016)
   - See response to criterion D for further details.
5. Legal and accounting support (with effect from 1 April 2018)
   - The existing legal and accounting support at the participating authorities will be amalgamated in order to increase the scope of services provided internally and increase resilience. Legal work which is expected to be carried out internally includes the review of investment management agreements, partnership agreements and the conveyancing on purchase and sale of direct property investments. Investment accounting will also be carried out internally.

(b) To procure externally (for example audit services):

1. External fund management for certain mandates (with effect from 1 April 2018)
   - Two of the participating authorities in the Pool currently use external fund managers for listed assets. Following its inception the Pool will continually review whether internal or external management is most appropriate for each investment mandate. It is likely that direct property investments will continue to be managed externally on an advisory basis.
2. Common custodian for Pool (plus depositaries & fund administrators for the pooled funds

that are established for non-listed assets) (with effect from 1 April 2018)

- A procurement exercise will be undertaken to appoint a common custodian for the Pool with effect from April 2018. In addition, depositaries and fund administrators will be appointed for pooled funds that are established for non-listed assets (property and/or private equity)

3. Investment management systems (with effect from 1 April 2018)
   - Prior to the Pool's inception a detailed review will be undertaken of systems requirements and appropriate investments management systems will be externally procured.
4. Audit (with effect from 1 April 2018)
   - The Pool will appoint an external auditor with extensive experience of auditing FCA regulated investment management firms. Consideration will also be given to outsourcing the Pool's internal audit function.
5. Performance analytics (with effect from 1 April 2018)
   - The Pool will use the services of an experienced external provider to benchmark the performance of the Pool (both investment performance and cost).
6. Responsible Investment services (with effect from 1 April 2018)
   - In addition to internal resources, the Pool will use the services of an experienced external provider to provide information and advice on Responsible Investment matters.
7. Value for money review of structure (shortly after 1 April 2018)
   - Following the Pool's inception an independent external review of the Pool's structure will be commissioned to provide assurance to the Participating Authorities that the Pool is providing optimum value for money.

Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the pool.

The service allocation as listed is based on the best advice and information received to date, but may be subject to alteration

- During the implementation phase should it become apparent that an alternative solution will provide better value for money.
- After implementation where alternative solutions could deliver better value for money (see 6 above).

5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.	
(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats).	
Confirmed: YES If NO please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018.	Anticipated date structure will be in place: 1 April 2018 (subject to receiving swift feedback from Government on this submission)
(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.	Attached as ANNEX A3
(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)	Attached as ANNEX A4
(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.	
Total value of assets estimated to be held in pool as at 31.3.2021: £35.416bn 31.3.2024: £35.416bn 31.3.2027: £35.416bn 31.3.2030: £35.416bn 31.3.2033: £35.416bn	

Criterion B: Strong governance and decision making

1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.
(a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.
Each of the participating authorities will nominate 3 representatives to the Oversight Board to express the views of their pensions committees. The Oversight Board's primary roles are to ensure that the directors of the Investment Management Company are effectively implementing the participating authorities' strategic asset allocations and to oversee how the Investment Management Company reports to the authorities' pension committees. All members of the Oversight Board have equal voting rights.
(b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).
• **Pensions Committees of the participating authorities** – The pensions committees will regularly receive performance information from the Pool, which they will consider in conjunction with professional external advice. The pensions committees nominate representatives to the Oversight Board and can change their representatives if they believe that they are not adequately performing their role. • **Local Pension Boards** – The Local Boards of the Participating Authorities have a duty to ensure their respective authorities comply with all relevant legislation, the requirements of the Pensions Regulator and to ensure the effective and efficient governance and administration of the Scheme. The pensions boards are comprised of representatives of employers and representatives of members of the funds. • **Valuation and performance analytics** – The Pool will use the services of an experienced external provider to benchmark the performance of the Pool (both investment performance and cost). • **Advisors to Oversight Board** – the Oversight Board will seek external advice as appropriate to ensure it is effectively carrying out its roles as described in part (a) above. • **External audit** – the Investment Management Company will appoint an external auditor with strong credentials in the investment management sector. The scope of the audit will

follow industry best practice.

- **Internal audit** – the Pool will consider the most effective way of providing a strong internal audit function. Options include appointing an external provider to carry out this service or using the services of one of the Participating Authorities.
- **Financial Conduct Authority ('FCA')** – The Pool will meet all requirements in order to acquire and maintain FCA approval.

2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.	
(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.	
Prior to the February submission to Government, the 3 participating authorities signed a memorandum of understanding which set out the proposed operation of the Pool. This memorandum of understanding will be revised and strengthened to reflect the finalised Pool structure. The MoU will set out how representatives of the participating authorities are appointed to the Pool Oversight Board and define the key strategic objectives and operational governance of the Pool. In addition to the MoU, Terms of Reference will be prepared for both the Oversight Board and the Investment Management Company, which will clearly set out the remit of each entity.	
(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.	Not yet available
(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.	
The Memorandum of Understanding grants the Oversight Body certain powers regarding the operation of the Investment Management Company, which can be used to ensure the effective performance of the Investment Management Company. Reporting processes will include regular written reports on the performance of Pool	

investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool Investment Management Company will also report to and present directly to participating authorities' pension committees and local pension boards as appropriate.
Participating Authorities' pension committees and local boards will also have access to the external benchmarking reports.

3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The pension committees of the Participating Authorities will retain responsibility for:

- Meeting their funds' liabilities.
- Setting the strategic asset allocation of their fund.
- Preparing the funding strategy statement and other appropriate strategy documents.

This will enable the Participating Authorities to demonstrate that they are exercising their democratic, statutory and fiduciary duty.

Subject to continuing to meet best practice and mandates being of sufficient size to ensure low cost, Participating Authorities 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. The participating authorities view these choices as asset allocation decisions.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

The Investment Management Company's role is to independently and professionally deliver the participating authorities' strategic asset allocation. This will involve making the following decisions:

- Whether to manage a mandate internally or whether to appoint an external manager for

that mandate.

- For externally managed mandates, whether the mandate is on an advisory or discretionary basis.
- Whether to remove an existing manager and/or appoint a new manager.
- For internally managed mandates, whether to buy or sell an individual asset.
- The legal form of any investment vehicles used (e.g. limited partnership, unit trust etc…).
- The appointment of external support such as custodians, depositaries, specialist advice as required.

This scope of decision making is designed to retain democratic accountability and fiduciary duty at the participating authorities whilst ensuring all investment decisions are undertaken by those individuals with appropriate knowledge and experience in compliance with FCA regulations and the continued efficient operation of the Pool.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

The Oversight Board will oversee all aspects of the operation of the Investment Management Company, but will not perform any FCA regulated functions. Its primary role is to ensure the Investment Management Company is effectively implementing the participating authorities' strategic asset allocations and is complying with their Investment Strategy Statements.

The Oversight Board will also undertake the following activities:

- Monitoring and benchmarking of performance and reporting back to the Participating Authorities' pension committees;
- Overseeing Responsible Investment activities
- Engagement with the pension committees of participating authorities to help drive efficiencies (for example providing details of what mandates already exist in the Pool and the potential for new mandates);
- Nominating representatives to national structures as appropriate (for example any national infrastructure board);
- Monitoring staffing requirements of the Investment Management Company and budgets.

4. The shared objectives for the pool and any policies that are to be agreed between participants.	
(a) Please set out below the shared objectives for the pool.	
The long-term vision of the Pool is to provide participating authorities with access to a range of internal and external investment management and related services at low cost, to enable their LGPS funds to continue outperforming their individual benchmarks. Liabilities influence the asset structure; funds exist to meet their liabilities. Asset allocation is the dominant determinant of portfolio risk and return. Markets can be inefficient. Risk premia exist for equity, credit, duration, illiquidity, inflation and volatility. The key principles of the Pool 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.	
(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.	
Prior to the February submission to Government the participating authorities signed a Memorandum of Understanding setting out the proposed operation of the Pool. This Memorandum of Understanding will be updated and strengthened where appropriate to reflect the final structure of the Pool.	
(c) If available please attach as an ANNEX any draft or agreed policies already in place.	MoU Attached as ANNEX B1

5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.	
(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. <u>Please include details of where new costs are offset by reduced existing costs.</u>	Implementation costs £1.8m Ongoing costs £4.7m p.a. (with a commensurate reduction in investment staffing costs at the Funds of c£4.0m)
<u>Assumptions</u>	

i) Implementation costs Estimated costs are in respect of: • Advice on FCA authorisation process. • Legal advice on proposed fund structures. • Procurement and implementation of systems, common custodian and depositaries. ii) Ongoing costs Existing investment staffing costs are approximately £4m p.a. across the 3 participating funds. An increase of £0.5m is assumed following pooling. The additional staffing costs are in respect of: • Risk and compliance roles required to meet FCA authorisation requirements. • Additional legal responsibilities of key staff. • Specialist systems support. • Non-executive directors on Investment Management Company Board. Additional ongoing costs arise in respect of: • Additional training and monitoring of staff to meet FCA compliance requirements • The cost of servicing FCA regulatory capital It is assumed that the costs of specialist investment management systems and the administration of collective investment vehicles created by the Pool will be offset by the efficiencies of moving from 3 custodians to a common Pool custodian. Further details of assumed implementation and ongoing costs can be found on pages 10 and 11 of Annex A2.	
<u>Comments</u> Implementation costs of the Northern Pool are assumed to be lower than typical due to significant internal resource available.	
(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.	The participating funds currently employ around 60 investment and support staff. During the implementation of the Pool this is expected to increase to around 65,

	reflecting the additional resource outlined in part a)ii) above. As additional listed assets are brought in house, there will be an increase in investment staff. However, the cost savings achieved will significantly outweigh the additional staff costs.
Assumptions: It is assumed that the additional resource which will be created by amalgamating the participating authorities' investment teams will enable the scope of activities undertaken by the Pool to be broader than those currently undertaken by the participating authorities. For example, it is expected that the proportion of listed assets that are internally managed will increase over time and a greater proportion of the investment in private equity will be internally selected (including co-investment) rather than invested via a 'fund-of-funds' approach. Please see the response to Criterion C, 3(b) for further details.	
Comments	

6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.	
(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.	
Confirmed: **YES** If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.	N/A

7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.

(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.	
Confirmed: **YES** If no please attach an ANNEX setting out how the pool will report publically on its performance.	N/A

8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.
(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.
The participating authorities (via the Pool Oversight Board) will agree a common reporting framework for the Pool. Indicators which are expected to be analysed include: • Net returns and net value added. • Returns and value added by asset class • Risk adjusted returns • Risk analysis • Cost analysis including comparison of asset management costs by asset class • Comparison of oversight, custodial and other investment costs

Criteria C: Reduced costs and excellent value for money

1. A fully transparent assessment of investment costs and fees as at 31 March 2013.	
(a) Please state the total investment costs and fees for all funds in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2013	£25.2m
(b) Please state the total investment costs and fees for all the funds in the pool as at 31st March 2013 on a transparent basis. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point.	£92.5m
(c) Please list below the assumptions made for the purposes of achieving the transparent costs quoted	
CEM benchmarking figures have been used to compile this information. Where data is incomplete, CEM has applied industry standard cost data to calculate the overall baseline costs.	

2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2015 for comparison	
(a) Please state the total investment costs and fees for all funds in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2015	£28.2m
(b) Please state the total investment costs and fees for all the funds in the pool as at 31st March 2015 on a transparent basis. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point.	£115.1m

(c) Please list below any assumptions made for the purposes of achieving the transparent costs quoted that differ from those listed in 1(c) above
CEM benchmarking figures have been used to compile this information. Where data is incomplete, CEM has applied industry standard cost data to calculate the overall baseline costs.

3. A detailed estimate of savings over the next 15 years.
(a) Please provide a summary of the estimated savings (per annum) to be achieved by the pool at the end of each 3 year period starting from 1st April 2018. Please note these estimates should be net of implementation and running costs of the pool as stated in B 5(a) and (b) but excluding the transition costs shown in 4 below. For consistency please base these estimates on an assumption that the current asset mix will not change over the period. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point.
Total value of savings (per annum) estimated to be achieved by the pool as at 31.3.2021: £ 5.1m 31.3.2024: £ 12.2m 31.3.2027: £ 17.2m 31.3.2030: £ 22.5m 31.3.2033: £ 28.3m
(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it)
The cost savings shown assume the Pool structure set out in Criteria A 3(a) is implemented. The savings arise predominantly from the increased resource of the Pool enabling some alternative asset classes to be accessed in a more cost effective way. Over the implementation period it is assumed that the Pool will: • Move from private equity fund of funds to single funds/co-investments • Move from hedge fund of funds to single strategy funds.

- Reduce the proportion of indirect property relative to direct property
- Reduce the proportion of indirect infrastructure relative to direct infrastructure

The costs of direct property, direct infrastructure and private equity co-investment once the Pool is fully operational have been estimated at 20bps, 85bps and 50bps respectively. This is based on the participating authorities experience to date of investing in these asset classes.

For other asset classes, the savings are calculated by assuming the Pool achieves asset management costs which are 10% below the CEM global median costs for the relevant asset class mandate. This reduction reflects the scale of the Pool.

The phasing of the costs savings over the period up to 2033 reflects the anticipated expiry dates of existing illiquid investments and realistic expectations of when the Pool will have the necessary capacity and capability where required.

The cost savings figures shown are net of the additional running costs of the Pool which are estimated at £0.7m p.a. as set out in the response to Criteria B 5(a). Implementation costs are assumed to incur prior to the inception of the Pool and therefore have not been reflected in the cost savings figures shown.

Additional cost savings are anticipated (but not included in the figures above) from moving the management of a proportion of the equities and bonds which are currently externally managed to in-house management over a period of time as appropriate internal capacity is developed.

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown	N/A

4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.	
(a) Please provide a summary of the estimated total transition costs at the end of each 3 year period starting from 1st April 2018. For consistency please base these estimates on an assumption that the current asset mix will not change over the period.	
Total value of transition costs estimated to be incurred by the pool by 31.3.2021: £ Nil 31.3.2024: £ Nil 31.3.2027: £ Nil 31.3.2030: £ Nil 31.3.2033: £ Nil	
(b) Please list below the assumptions made in estimating the transition costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it)	
In view of the approach to pooling listed assets, the Northern Pool is assuming that it will not incur any transition costs. Any transition costs that are incurred will arise from asset allocation and investment management decisions independent of the pooling process – not simply from aggregating assets. The estimated costs of establishing the Pool are shown in Criteria B Part 5. As part of the process of preparing this submission, estimated transition costs have been obtained from Northern Trust for sample equity and bond mandate changes. These costs have been taken into consideration when formulating the proposals in this document.	
(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the transition costs shown	N/A
(d) Please confirm that transition costs will be met by the participating funds	

Confirmed YES/NO **YES** If no please attach an ANNEX setting out how the transition costs will be met	N/A

5. A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance	
(b) Please confirm that the pool will publish its annually transition costs and net fees on its own website or a on the websites of all participating funds	
Confirmed YES/NO **YES** If no please attach an ANNEX setting out how the pool will report transparently on transition costs and net fees	N/A

Criterion D: An improved capacity to invest in infrastructure

1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"	
(a) Please state the pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	See table below
(b) Please state the pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	See table below

		GMPF	MPF	WYPF	Pool
Direct	Allocated	1.5% £250m	0.5% £30m		0.8% £280m
	Committed	0.6% £105m	0.5% £30m		0.4% £135m
	At Work	0.5% £90m	0.2% £15m		0.3% £105m
Funds	Allocated	4.0% £680m	4.5% £320m	3.0% £325m	3.8% £1,325m
	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	5.0% £345m	3.0% £325m	4.5% £1,600m
	Committed	3.4% £574m	4.7% £302m	3.3% £366m	3.5% £1,242m
	At Work	1.9% £314m	3.6% £235m	2.4% £271m	2.3% £820m

The figures in the table above reflect the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or "fund of funds" arrangements.

(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.	Confirmed
(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.	**Yes** The Northern Pool is committed to working with the cross pool collaboration on infrastructure and as such has agreed to operate in accordance with the document attached as Annex D1. The Pool has a strong belief that the infrastructure partnership developed between GMPF and LPFA ('GLIL'), which WYPF and MPF will shortly be joining can form part of the solution for national LGPS collaboration on infrastructure investment. Indeed, use of this vehicle could accelerate the achievement of the objectives set out in this submission and Annex D1.
(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing	Attached as Annex D2 is a document setting out how GLIL can form part of the national solution for infrastructure investment

shared resources of other Pools and include a timescale for implementation of the initiative.	

3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.	
(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	10% of Pool Assets
(b) Please describe the conditions in which this allocation could be realised. The two key conditions are i Investments are available that meet the required risk adjusted returns net of fees. The Northern Pool envisages that this requires a programme of both externally managed pooled vehicles and direct investments. ii The Pool has access to entities that have the capacity and capability to access this investment strategy. (For example GLIL for direct UK infrastructure.)	

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The Northern Pool
Advising the Northern Pool on Operational Structures

28 June 2016

pwc

1. Executive summary

This report has been prepared for the Northern Pool, made up of the Greater Manchester Pension Fund ('GMPF'), the West Yorkshire Pension Fund ('WYPF') and the Merseyside Pension Fund ('MPF'). This report is prepared to assist the Pool in its consideration of certain alternative operating models that the Northern Pool could use as part of their response to DCLG's Local Government Pension Scheme Pooling initiative.

Our analysis covers three possible operating models for the Northern Pool, as we have previously explored at a higher level:

1. **Own ACS operator:**
2. **AIFM without ACS**
3. **Joint committee**

We have split our analysis up into three separate phases, as set out in our proposal document dated 23rd May 2016:

Phase 1 – Operational cost differentials
Phase 2 – Asset transition and tax
Phase 3 – Operational & Asset Holding Structures

In summary, the estimated cost differentials between the three structures on a set up and ongoing basis are set out in the tables below.

Structure	1. ACS Operator with ACS Fund	2. AIFM with no ACS	3. Joint Committee
Set up costs	£6.0m - £10.2m	£1.8m	£1.2m
Incremental ongoing costs	£2.05m p.a.	£0.7m p.a.	£0.2m p.a.

Key – Red = highest cost, Green = lowest cost

Time	Outset	After 5 years	After 10 years
Cumulative cost difference between 1. and 2.*	£4.2m - £8.4m	£10.95m - £15.15m	£17.7m - £21.9m

*Note – the cost difference assumes that the ACS Fund is able to benefit from c£1.5m pa in withholding tax efficiency on French dividends. If this is not the case in practice, the cost differential could be £15m wider after 10 years i.e £32.7m - £36.9m.

It should be noted that the above sets out the differentials between the structures, not a bottom up assessment of costs. We recommend the detailed financial model to support the business case and regulatory application is prepared as part of the next phase

Set up costs

Set up cost for the ACS Operator with ACS Fund are expected to be significantly higher than for the other structural options, primarily due to:

1. A greater level of legal, financial, tax and regulatory advice required in order to set up the vehicle
2. Significant transactional taxes due to a change in legal ownership

This means that there is a significant investment required to set up an ACS, when compared with the other options. The AIFM without ACS would be cheaper to set up and would also be a regulated entity. It is assumed

that this entity and the AIFM with ACS would deal with alternative assets in the same way outside of an ACS structure and as such there should be no cost differentials there.

Ongoing costs

The ACS is also expected to be the most expensive structure to run, as it will require more regulated staff, there is a higher cost of compliance and the custodian would have to provide additional services, such as depositary and fund administration, which have significant annual costs associated with them.

There is therefore a c£1.35m difference in annual costs between the ACS and the AIFM without ACS, meaning that the cumulative cost differential between the 2 operational structures will widen over time. This differential could increase further if the ACS is not able to take advantage of withholding tax efficiency on French dividends at any point in the future.

Operational structures

Although it is the cheapest structure to establish and run, the Joint Committee structure is the only one out of the three that is non-regulated, and DCLG has already discouraged such an approach, due to the perceived lack of clarity over governance and oversight.

The ACS operator with ACS Fund and the AIFM without ACS are both regulated entities, with lower cost under the AIFM without ACS structure due to operational and compliance costs of the ACS fund itself.

The ACS operator will take longer to establish due to a more robust authorisation processes plus higher advisor requirements, especially around the tax treatment of transferring assets, transparency of the fund and the legal structure.

It is expected that internal staff from the Funds would transfer into either the ACS operator or into the AIFM. Regulatory authorisation will be required of key individuals in order to perform their roles. To the extent that existing key staff of the funds are transferred to the pool, this could result in skill shortages in the Funds and we recommend that role mapping is performed and benchmarked at the Asset Manager, Fund and Administering Authority level as soon as possible in the next phase once a high level structure is selected.

Other considerations and comments

As we have discussed with the Pool, due to the scale of the current assets within the 3 LGPS Funds, it is not anticipated that one structure would give additional savings in asset management fees over another one. Each of the structures is expected to benefit from a reduction in custodian fees, as was confirmed in our recent meeting with BNP Paribas.

We have assumed that, regardless of the structure, each Fund will retain current investment managers and mandates around listed equities and bonds in the short term. In practise, if any changes are made to consolidate mandates with a particular manager, then we expect that there will be a minimum 5bps charge to transition the assets that are moved (maybe 30/40% of a portfolio). However those transition fees would be similar whether the transition takes place inside or outside an ACS fund.

In regards to the regulated structures, it should be noted that the second structure, an AIFM without the ACS would provide the most flexibility through the early years of the pool, being able to set up and operate different funds for the pool for different investments and to carry out segregated investment management or asset manager selection where more appropriate. The AIFM (with MiFID type permissions as appropriate) would need to have a fund it sets up and operates and this could for example be a Real Estate or Private Equity Fund. The AIFM could also establish an ACS fund in time should the financial benefits seem worthwhile once the pool evolves. It will be important for the Pool to ensure that the segregated portfolio management activities of the Pool do not 'taint' the AIFM status of the manager and we would recommend further guidance is sought on this point in the next phase.

Due to the unique nature of the 3 Funds in the Northern Pool, in particular the scale of the Funds, low level of existing mandates and existing low investment manager fees already in place, alongside relatively high level of internal management, it is expected that the benefits of pooling will be realised regardless of whether appropriate investments are held via an ACS or outside of an ACS. In fact the ACS structure may well result in a less efficient solution for the pool for relevant asset classes. In either of the regulated structures the benefits of pooling for alternative assets could be achieved to the same degree as these would be invested in relevant alternative funds that could be established under either structure.

2. Introduction and background

Introduction

This report has been prepared for the Northern Pool, made up of the Greater Manchester Pension Fund ('GMPF'), the West Yorkshire Pension Fund ('WYPF') and the Merseyside Pension Fund ('MPF'). This report is prepared to assist the Pool in its consideration of certain alternative operating models that the Northern Pool could use as part of their response to DCLG's Local Government Pension Scheme Pooling initiative.

Our analysis compares both the set up and ongoing costs arising from each structure and considers the costs of asset transfers into an ACS fund. This analysis provides a useful comparison from a costs perspective of the three structural options being considered. The report also compares and contrasts the different operating and asset holding structures and notes the tax considerations that the Pool will need to bear in mind.

The report is to support the Northern Pool's final submission to the Government on 15 July regarding their investment pooling intentions and for the meeting with Treasury on 16 June.

More information on our scope is contained below.

Our scope

In our previous report dated February 2016 and meetings, we considered three different operating models that the Northern Pool could use to pool assets. These were:

1. ***Own ACS operator.*** *The Northern Pool Funds would manage all assets via an FCA regulated Asset Management Company. The Company would also establish an ACS fund for holding appropriate assets (notably listed equities, bonds and possibly real estate). The asset management company would be overseen by a Joint Committee arrangement.*
2. ***Joint Committee with Asset Manager.*** *The Northern Pool Funds would manage all assets via an FCA regulated Asset Manager Company. The Listed bonds, equities and real estate would not be held in an ACS fund established by the pool but held in segregated mandates. The asset management company would be overseen by a Joint Committee arrangement.*
3. ***Joint Committee.*** *An Oversight Group is set up by the participating funds to manage assets collectively but no FCA regulated business is established.*

It is important to set some context for the various structures above, in particular the ACS operator. The difference between structures 1 and 2 essentially comes down to whether the funds would hold certain assets in a fund structure (ACS) created and managed by the asset management company, or not. It is not currently envisaged by any LGPS pool that all assets would be held in a single ACS fund as that vehicle is not suitable for all assets. We have considered the advantages, disadvantages and costs of an ACS for listed equities, bonds and real estate for the Northern Pool. In each of structures 1 and 2 the asset management company may decide to hold other assets (private equity, infrastructure) via alternative structures which would be considered on a case by case basis.

As part of our previous work, we identified with the Northern Pool that the ACS option was likely to be relatively costly as an option. However, this is one of the key vehicles created by the UK authorities for asset pooling and we are aware that it is being considered by a number of other pools. It should be noted that any structural decision will be impacted by the facts of the case, for example the current investor profiles of the Funds in the Northern Pool. It is clear that there is not one solution for all answers for pooling in the LGPS.

We have split our work into three phases – 1) operating costs, 2) asset transition and taxes, 3) advantages and disadvantages for each structure. Given the views articulated by Treasury regarding the need for a separate, FCA regulated operating company, our focus has mainly been on structures 1 and 2. These two structures will both involve a regulated asset manager which does appear to be a base requirement. Treasury have been less

prescriptive on asset holding structure such as the ACS and do appear willing to consider alternative structures put forward by the Pools.

We have expanded upon the initial work that we have undertaken for you and built upon this analysis to consider a wider range of operating costs, asset classes and transactional taxes, based on the actual holdings of all three Funds in the Northern Pool.

A summary of the first two structures is set out in this section. We have not included a structural summary of the Joint Committee, due to the lack of an FCA regulated vehicle and the importance that DCLG is placing on this.

Memorandum of Understanding

This agreement is made on 19 February 2016 between the Local Government Pension Scheme ('LGPS') funds administered by Tameside Metropolitan Borough Council, Wirral Metropolitan Borough Council, City of Bradford Metropolitan District Council ("the Funds")

The Funds will work together to form a Collective Asset Pool ("the Pool") which meets the criteria released by Government on 25 November 2015.

This Memorandum of Understanding sets out at a high-level the expected operation of the Pool and the proposed steps in its development.

This will form the basis of the joint submission to Government which the Pool is required to make by July 2016.

The proposals outlined below will likely be subject to change following receipt of professional advice and any changes to the pooling criteria or further detail being provided by Government.

In working together, knowledge and expertise will be shared and resilience will be developed. Collaboration with other LGPS pools is expected and will be encouraged.

Investment philosophy

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.

Liabilities influence the asset structure; funds exist to meet their liabilities. Asset allocation is the dominant determinant of portfolio risk and return. 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.

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

The pension committees of the participating funds will retain responsibility for liabilities, setting the strategic asset allocation of their fund and associated regulatory policies and strategy documents.

Subject to continuing to meet best practice, participating funds will also retain the ability to select asset class (equity, bonds, property etc…), territory (UK, Europe, US etc..) style 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 or by an external manager.

If it is expected to improve returns net of costs, as and when necessary, the pool will seek FCA Authorisation for the management of specific asset classes. This may require the establishment of legal vehicles such as an Authorised Contractual Scheme ('ACS').

Governance

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.

The legal structure of the Pool Board is expected to be a joint committee.

All Pool Board members have equal voting rights.

In general, decisions of the Pool Board will be made by majority decision. Unanimous decisions will be required for any changes to governance arrangements

The Pool Board will consider whether to appoint independent members and advisors to the Board and whether these appointments should be in a voting or non-voting capacity.

The Pool Board can form sub-committees to oversee specific aspects of the Pool's operation in more detail.

Role of Pool Board

The Pool Board will oversee all aspects of the operation of the Pool's Executive Body, it will not perform any FCA regulated functions. The Board will have oversight of the following:

- The implementation of participating funds' asset allocation instructions;
- The transition of existing fund investments into the Pool;
- Monitoring and benchmarking performance and reporting back to individual fund committees;
- Responsible Investment activities
- Engagement with the committees of participating funds to help drive efficiencies (for example providing details of what mandates already exist in the Pool and new mandates);
- Nominating representatives to national structures as appropriate (for example any national infrastructure board);
- Staffing requirements of the Pool.

Approach to infrastructure investing

The Pool will seek to collaborate more widely across the LGPS on infrastructure investment, either by working collaboratively with other pools or as part of a LGPS-wide infrastructure vehicle. This collective working will help increase the scale and diversity of infrastructure investment held by the Pool.

To minimise cost and build on existing experience, the Pool will look to use the existing GMPF/LPFA Infrastructure Partnership ('GLIL'), which is open to other investors, for direct infrastructure investments.

Subject to suitable governance arrangements, consideration will be given to infrastructure investment in the area served by the participating funds which meet the twin objectives of generating appropriate commercial returns and supporting the local economies of the participating funds.

Where a fund holds local investments outside the Pool, management of those assets will be undertaken by the Pool where that will achieve value for money.

Staffing of Executive Body

Over time a multi-site investment team will be developed, with different specialisms being based in different locations in order to make best use of the skills, talents and resources that the Pool has available to it and the desire for local expertise to be maintained.

The intention of the Pool is for a combined Pool resource to undertake monitoring and reporting to fund committees of all participating funds' investments.

Further work will be undertaken to determine whether the Pool's objectives are best delivered via a 'shared service' model, where staff will be employed directly by the administering authorities or whether an investment company should be established by the Pool.

Transition of assets into pool

The Pool will start to make collective investments at the earliest practical opportunity. It is expected that initial pooled investments will be in asset classes where there is currently duplication of effort and material economies of scale can be generated.

As part of the work in formulating the submission to Government in Summer 2016, the pool will draw up a high-level timetable for how assets will transition into the Pool.

Participating funds, in collaboration with the Pool, will periodically assess whether it is cost effective, for both the Pool and the fund, for any non-pooled assets to transition into the pool.

Management of non-pooled assets

Funds' existing holdings of the asset classes listed below are expected to be held outside of the pool in the medium term. The pool will work together to establish measures which could be taken in order to drive efficiencies in the management of these assets, some of these are set out below.

Infrastructure - combine monitoring resources for existing fund assets

Property – undertake a tender exercise to select a single provider for individual funds' existing advisory mandates and the newly created Pool property fund for new investments

Private equity – combine monitoring resources; develop opportunities for co-investment

Other illiquid assets – combine monitoring where possible

Where possible, external managers (for example life-wrapped passive equity) will be jointly procured between participating funds in order to leverage the Pool's scale.

Joint procurement of other investment related service providers such as custodians will also be considered.

Costs

Detailed work will be undertaken on a mechanism for Pool costs to be met by participating funds on an equitable basis.

This will allow smaller funds to benefit from the economies of scale generated by the Pool and avoid an increase in 'like-for-like' costs for larger funds compared to their existing position.

ESG

Consideration of ESG matters will be an integral part of the investment process. The pool will work collaboratively to consider ESG and Responsible Investment issues.

Regular dialogue will take place between the Pool Board and participating funds' committees on how ESG/RI issues are being tackled by the Pool.

Participating funds will have flexibility to express different views where this is appropriate to their investment principles.

The pool will collaborate with national initiatives in this area such as the Local Authority Pension Fund Forum (LAPFF); Institutional Investor Group on Climate Change.

Councillor Kieran Quinn, Chair, Greater Manchester Pension Fund

Councillor Paul Doughty, Chair, Merseyside Pension Fund

Councillor Andrew Thornton, Chair, West Yorkshire Pension Fund

Department for Communities and Local Government

Marcus Jones MP
Minister for Local Government

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www.gov.uk/dclg

Cllr Keiran Quinn
Cllr Paul Doughty
Cllr Andrew Thornton

24 MAR 2016

Dear Chairs,

NORTHERN POWERHOUSE INVESTMENT POOL PROPOSAL

I would like to thank you and all the authorities involved in the proposed Northern Powerhouse pool for submitting your initial proposal by 19 February. I was pleased to see that all 90 authorities made a commitment to pooling, with the overwhelming majority already involved in developing a pool. The move towards collective investment represents a significant opportunity for administering authorities to deliver substantial savings and efficiencies, and your contribution is much appreciated.

I welcome the initial Northern Powerhouse proposal and encourage you to continue with your work to develop a detailed submission that fully addresses the criteria by 15 July. Your initial group clearly meets the scale criterion and your work to date provides a strong foundation upon which a more detailed proposal can be built. However, as you know, there remains a considerable amount of work to do before July.

In particular, I encourage you to reconsider your preference for a joint committee structure, in order to ensure the clear and effective governance which provides the assurance authorities, beneficiaries, and co-investors require. In my view, the structure, standards and systems required for an entity regulated by the Financial Conduct Authority provide substantial assurance. As a minimum, I would expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with managers, as well as the employment of staff. There should also be a clear distinction between the roles of those involved in the governance of the pool, and its operations.

In your July submission I will want to see more detail against the infrastructure criteria, including setting out your constituent fund's ambition for infrastructure investment where the right opportunities exist. Several pools committed to exploring a national vehicle to access infrastructure investment at a larger scale and at lower cost. We will therefore work with administering authorities to establish a new Local Government Pension Scheme (LGPS) infrastructure investment platform that meets the specific needs of LGPS investors.

I will also expect the final proposal to address the reporting requirements in the criteria and guidance in detail. Reporting will need to cover progress in establishing the pool and moving

assets into it, implementation costs, fees and other costs incurred, including hidden costs, estimated savings, and net performance in each asset class.

I will also take this opportunity to respond to two questions raised in many pooling submissions:

- Some authorities have indicated that they would prefer to use more than one pool, often to ensure that their investment strategy can be fully implemented. I do not consider that this approach should be necessary as the governance structure should enable authorities to hold the pool to account and ensure that their investment strategy is implemented effectively. However, one pool may of course procure services from another, especially if a particular asset class is not yet available. The use of multiple pools should certainly not be considered as a means to access a preferred manager or very specific asset class not available through your pool.

- My expectation remains that all investments should be made through the pool. However, I recognise that there may be a limited number of existing investments that might be less suitable to pooled arrangements, such as local initiatives or some products tailored to specific liabilities. The rationale for retaining any existing investments outside of the pool will need to be set out in the final proposal, making clear how this offers value for money. Any exemptions should be minimal and kept under review. I also recognise that a similar approach will need to be taken for illiquid assets with high penalty costs for early exit of a contract. Such investments should not be wound up early as a result of pooling but instead transferred across when practicable, taking into account value for money.

I strongly encourage you to continue dialogue with officials as you develop your thinking over the coming months. For the final assessment the panel will include members with specific expertise in investment management, and you may be asked to present at a meeting of the assessment panel well ahead of your July submission. I look forward to receiving your detailed proposals.

I am copying this letter to the chairs of Pension Committees in all the participating authorities.

Yours sincerely,

MARCUS JONES MP

West Yorkshire Pension Fund
Administered by City of Bradford Metropolitan District Council

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Bradford
BD1 1UP
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Appendix E

Parliamentary Under Secretary of State (Minister for Local Government) Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF

15 July 2016

Dear Minister,

Local Government Pension Scheme: Investment Reform Criteria and Guidance

You will have received the Northern Pool submission under separate cover, which has the full support of the three participating funds.

As you will be aware from my letter of 19 February 2016, minimising costs and joint working are part of the philosophy of West Yorkshire Pension Fund (WYPF), which is, of course, itself a pool of the assets of the five West Yorkshire districts, and has been jointly managed for 30 years while under the administration of the City of Bradford Metropolitan District Council. Our commitment to joint working is demonstrated by our joint service agreement for pensions administration with Lincolnshire Pension Fund, which also covers seven fire and rescue authorities.

WYPF is the fourth largest LGPS fund, with over 275,000 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 96%. This has been achieved with the lowest investment 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.

This low cost base has been confirmed by the work the LGPS has done with CEM Benchmarking over the last six months, which includes cost comparisons with the very largest schemes in their international database. Since my letter of 19 February we have had the externally prepared analysis of our investment performance for periods to 31 March 2016, which shows that the internal team have delivered 0.5% per annum above index returns over one, three, five and ten years. As indicated above, this has been achieved at a cost lower than that of passive management.

We are committed to pooling, and believe that joint working will deliver savings on the unlisted and illiquid portfolios. However, as our cost base for managing listed assets is so low, it is likely that WYPF costs will rise, as a result of pooling. 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 for managing listed assets, thereby setting a target for all pools, as well as a target for consistent long term performance.

Were you to do this we believe it will avoid the risk of incurring expenditure unnecessarily, and we could continue working with our pooling partners towards bringing more assets in-house. This will avoid expenditure being incurred until it is required in order to make a compensating saving.

We look forward to your response on our pooling submission and this letter in due course.

Yours sincerely

_____

Councillor Andrew Thornton, Chair, West Yorkshire Pension Fund

Merseyside LGPS Fund Local Pension Board, 14 April 2016

Board Resolution

Agenda Item 5

(1) The Local Pension Board of the Merseyside Pension Fund commends and supports the overall approach adopted by the Northern Powerhouse Pool in their February 2016 submission to the DCLG and the Memorandum of Understanding between the Administering Authorities of the Merseyside, Greater Manchester and West Yorkshire Funds of 19 February 2016.

(2) That in particular the Board commends

- **(i) The proposed approach to the structure and Governance of the Northern Powerhouse Pool noting in particular the intent to seek to retain genuine Elected Member oversight through a Joint Committee**
- **(ii) The Pools' proposed approach to the management of alternative/illiquid assets**
- **(iii) The intention to explore a range of options for the management of listed assets**

(3) That the Pool's governance arrangements should ideally facilitate the genuine involvement and participation of non-district employer, employee and pensioner representatives.

John Raisin
Independent Chair

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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 9 November 2016.

B

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

Summary statement:

The Department for Communities and Local Government (DCLG) has laid The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which enable the pooling of investments.

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

- The introduction of an Investment Strategy Statement (replacing the Statement of Investment Principles) and the removal of the prudential limits.
- The requirement for funds to pool their assets.
- The introduction of 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.

Recommendations

It is recommended that members note that the Regulations do not cause any concerns on the matters pertaining directly to investments, but that there have been no restrictions applied to the power of the Secretary of State to intervene in local authorities investment decisions, which does not support the policy objective of making local authorities clearly accountable for their decisions by removing the schedule of investment limits.

Rodney Barton
Director

Phone: (01274) 432317
E-mail: Rodney,barton@wypf.org.uk

1. Background

1.1 DCLG consulted at the beginning of the year on these Regulations, and a response was duly submitted by WYPF, the main issue being concerns surrounding the power for the Secretary of State to intervene in investment decisions made by councillors who are democratically accountable under the primary legislation.

1.2 The Regulations were laid before Parliament on 23 September 2016, and are due to come into force on 1 November 2016. This may be delayed, as there is to be a debate on the Regulations in the House of Lords.

2. The Investment Regulations

2.1 The regulations make provision in relation to the management and investment of pension funds held by administering authorities required to maintain such funds by the Local Government Pension Scheme Regulations 2013. They revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2.2 Specific provision is made for administering authorities to publish an investment strategy in accordance with guidance issued by the Secretary of State and for the Secretary of State to issue a direction to any authority which fails to act in accordance with its statutory obligations, or guidance issued.

2.3 Regulation 3 defines what is meant by an “investment” for the purposes of the regulations. For clarification, the definition makes express reference to futures, options, derivatives, limited partnerships and some types of insurance contracts. It also defines with whom a contract of insurance can be entered into.

2.4 Regulation 4 sets out the monies that an administering authority must credit to its pension fund. It also sets out the administering authority’s responsibility to pay benefits to members, and that costs of administering the scheme can be charged to the fund except where prohibited by other regulations.

2.5 Regulation 5 outlines the limited circumstances under which an administering authority can borrow money that the pension fund is liable to repay.

2.6 Regulation 6 requires administering authorities to deposit all pension fund monies in a separate bank account and lists those institutions that can act as a deposit-taker. A deposit taker cannot use pension fund monies to set-off any other account held by the administering authority or a connected party.

2.7 Regulation 7 places an obligation on administering authorities to consult on and publish an investment strategy statement, which must be in accordance with guidance from the Secretary of State. The statement must demonstrate that investments will be suitably diversified and should outline the administering authority’s maximum allocations for different asset classes, as well as their approach to risk and responsible investing. Separate guidance from the Secretary of State will clarify how the Government’s announcement on boycotts,

sanctions and divestments should be taken into account when investment decisions are taken. The guidance is available on the Government's website at https://www.gov.uk/government/publications/local-government-pensionscheme-guidance-on-preparing-and-maintaining-an-investment-strategystatement

2.8 Regulation 8 provides the Secretary of State with the power to intervene in the investment function of an administering authority if he is satisfied that the authority is failing to act in accordance with the regulations and guidance. The regulation also enables the Secretary of State to initiate enquiries if an intervention is warranted and must consult the authority concerned. The Secretary of State can intervene by directing the authority to undertake a broad range of actions to remedy the situation.

2.9 Regulation 9 details how an administering authority may appoint external investment managers.

2.10 Regulation 10 allows administering authorities to invest in Treasury approved collective investment schemes.

3. Investment Strategy Statement

3.1 The Regulations remove the existing schedule of limitations on investments, and authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk.

3.2 This will be set out in the Investment Strategy Statement (ISS), which authorities will be required to prepare, having taken proper advice, and publish. The statement must cover:

- A requirement to use a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including how it will be measured and managed.
- The authority's approach to collaborative investment, including the use of collective investment vehicles and shared services.
- The authority's environmental, social and corporate governance policy.
- The authority's policy on the exercise of rights, including voting rights, attached to its investments.

3.3 WYPF presently has a Statement of Investment Principles, which covers most of these matters, but will be reviewed, and presented to the January 2017 meeting as the ISS. Pooling is a new area to be covered by the ISS, so we will work with our partners in preparing a common section on pooling.

3.4 The ISS must be published by 1 April 2017.

4. Secretary of State Power of Intervention

4.1 Under Regulation 8 the Secretary of State may make a direction requiring all or any of the following:

- that the authority make such changes to its investment strategy under as the Secretary of State considers appropriate, within such period of time as is specified in the direction;
- 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;
- 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;
- 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.

4.2 Before making a decision whether to issue a direction the Secretary of State must consult the authority concerned.

4.3 In reaching a decision whether to issue a 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

- 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 regulation 62 of the 2013 Regulations (actuarial valuations of pension funds);
- any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board;
- any representations made by the authority in response to the consultation;
- any other evidence that the Secretary of State regards as relevant to whether the authority has been complying with these Regulations or acting in accordance with guidance.

An authority must comply with any request from the Secretary of State to facilitate the obtaining of information

5. Government Response to the Consultation

5.1 The Government received 23,516 responses to the consultation on these Regulations, which can be found at:

https://www.gov.uk/government/consultations/local-government-pension-schemeopportunities-for-collaboration-cost-savings-and-efficiencies.
Over 23,000 disagreed with the proposal to grant the Secretary of State the power to intervene in local authorities' investment decisions.

Contact Officer: Rodney Barton
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26 October 2016

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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 9 November 2016.

C

Subject: 2016 Actuarial Valuation

Summary statement:

The triennial actuarial valuation of the West Yorkshire Pension Fund (WYPF) is being prepared based on the situation at 31 March 2016, and will determine the level of employers' contributions from April 2017 onwards.

Recommendations

That this report is noted.

Rodney Barton
Director

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

Portfolio:

Overview & Scrutiny Area:

1. Summary

This report provides the Pension Board with a summary of the proposed approach to the actuarial valuation at 31 March 2016 by the Fund's actuary.

2. Background

2.1 In accordance with the Regulations the Fund is subject to an actuarial valuation by its appointed consulting actuary at 31March 2016.

2.2 The main aims of carrying out an actuarial valuation of the Fund are to:

- Review the financial position of the fund,
- Determine the employers contribution rates; and
- Ensure that the legal requirements in relation to the actuarial valuation are met.

2.3 The last actuarial valuation at 31 March 2013 resulted in a funding level of 96%, with employers paying the aggregate employer future service contribution rate of 14.3% of pensionable pay. In addition the majority of employers were also required to pay additional monetary contributions to cover any deficits to restore the funding ratio to 100 % using a recovery period of up to 22 years.

3. Approach to the Valuation at 31 March 2016

3.1 The aim is for a valuation result with a minimal contribution change while keeping the funding risk at an acceptable level. The preferred primary tool for adjustment to achieve the acceptable level of contributions is the assumed rate of investment return.

3.2 Under the Aon Hewitt's risk based approach there are three key decisions to be made in relation to each employer in the Fund (in practice many employers can be grouped together for these decisions). These re:

- The solvency target for each employer.
- The trajectory period for each employer (i.e. when you want to reach the solvency target).
- The required probability of funding success i.e. how likely do you wish it to be that you achieve the solvency target by the end of the trajectory period.

3.3 Data was submitted to the Funds Actuary in mid-July.

3.4 A meeting between the Funds Actuary and the Joint Advisory sub group made up of Chair, Deputy Chair and union representative met in October to agree the assumptions to be used in valuing the Fund.

3.5 The objective of agreeing the assumptions to be used is to produce a result which will enable the fund to maintain as steady a contribution rate for the main employers as is possible, as stated in 3.1. For the other employers there will be slightly differing approaches.

3.6 The funds relative position has fallen between 2013 and 2016 due to a combination of a relatively high discount rate used in 2013, lower investment returns and relatively low employers contributions.

3.7 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

3.8 The purpose of the FSS is to set out the processes by which the Administering Authority :

- Establish a clear and transparent fund specific strategy which will identify how employers pensions liabilities are best met going forward;
- Supports the regulatory requirement that it is desirable to maintain as far as possible stable primary employer contribution rates;
- Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long term cost efficiency of the Fund are met;
- Takes a prudent longer term view of funding these liabilities.

Interested parties, including officers, elected members and employer representatives will be consulted on the FSS. Following the consultation the Funding Strategy Statement will be presented to the next Joint Advisory Group meeting in January for approval.

4 Section 13 Review

4.1 The Government Actuary's department has been appointed by the Department for Communities and Local Government to provide a report under Section 13 of the Public Service Pensions Act 2013. The report will provide an overview of the 91 separate valuations by the four actuarial firm and will review the appropriateness of employer's contributions. As a result of this review the assumptions used in the valuation will loom large in each Actuary's mind. Aon will be concerned about negative publicity that might ensue if the assumptions WYPF use are deemed too weak.

5. Recommendation

5.1 That this report is noted.

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Report of the Director West Yorkshire Pension Fund to the meeting of Pension Board to be held on 9 November 2016.

D

Subject: Register of Breaches of the Pensions Regulator's Code of Practice

Summary statement:

In accordance with the Public Service Pensions Act 2013, 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) imposes a requirement to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

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

A register of any breaches of the Pensions Regulator's Code of Practice is maintained in accordance with the WYPF Breaches procedure.

Recommendations

It is recommended that the entries, all of which relate to late payment of contributions by employers, on the Register of Breaches are noted. The action taken in each case is noted as part of the entry.

Rodney Barton
Director

Portfolio:
Leader of Council & Strategic Regeneration

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

Overview & Scrutiny Area: N/A

1. **Background**

1.1 Section 70 of the Pensions Act 2004 (the Act) imposes a requirement to report a matter to The Pensions Regulator as soon as is reasonably practicable where that a person has reasonable cause to believe that:

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

1.2 This requirement applies to:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

1.3 The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

2 Reporting Breaches Procedure

2.1 A record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). WYPF maintains a record of all reported or unreported breaches.

2.2 The Register of Breaches (reported or otherwise) is provided to each Joint Advisory Group meeting, and is also be shared with the Pension Board.

3 Breaches since April 2016

3.1 The entries on the Register for April 2016 all relate to late payment of employer contributions which were due to be paid to WYPF by 19 May 2016. As all payments for employers were received on time in June there is no need to make a report to the Regulator. Details of the 2016/17 entry can be found on the Register of Breaches (Appendix 1).

4 Recommendations

It is recommended that the entries, all of which relate to late payment of contributions by employers, on the Register of Breaches are noted. The action taken in each case is noted as part of the entry.

5 Appendix

Appendix 1 – Register of Breaches 2016
Appendix 2 – Late Payment of Contributions – April 2016 due by 19th May 2016

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Document D Appendix 1
WYPF Breaches of the Pensions Regulators Code of Practice Register 2016

Date	Category (eg administration, contributions, funding , investments)	Pensions Regulator code of practice	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported/Not reported	Outcome of report and or investigations	Outstanding Actions	Notes
Jun-16	Administration - Maintaining contributions	147	Employee contributions deducted from a members pay must be paid to the manager of the scheme, at the latest by the **19th day of the month following deduction or by 22nd day if paid electronically**. (Please see attached spreadsheet for details of employers who failed to pay by the deadline for April 2016).	Contributions not received by the scheme within the prescribed timescales	**Immediate action**: All employers have a designated business partner, business partners have contacted each employer to make them aware of the late payment and informed them that any future late payments will incur an admin charge and that they will also be liable to pay interest and that they may be reported to the Pensions Regulator. **Ongoing Action:** Employers have always been closely monitored. Records of each employer which fails to make payment each month are maintained along with details of the number of late payment occasions.	Not reported as all payments by these employers for May 2016 contributions were received on time in June.	All outstanding contributions for April which were due by 19th May were received by 13th June 2016, this means these employers avoid the statutory late payment charges.	None	Process introduced to monitor any late payment of contributions by employers.

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Document D Appendix 2
Late Payment of contributions

April 2016 Contributions due 19 May 2016

Employer	Date Due	Date Paid	Value of late contributions
Groundwork Leeds	19/05/2016	20/05/2016	1,433.00
Samuel Lister Academy	19/05/2016	24/05/2016	16,224.25
Southfield Grange Trust	19/05/2016	24/05/2016	53,940.10
Kirkburton Parish Council	19/05/2016	25/05/2016	612.76
Aspens Services Ltd	19/05/2016	25/05/2016	948.71
Aspens Services Ltd (Leeds West Academy)	19/05/2016	25/05/2016	1,029.02
Aspens Services Ltd (Leeds East Academy)	19/05/2016	25/05/2016	832.63
University Academy Keighley	19/05/2016	25/05/2016	15,964.82
Otley Town Council	19/05/2016	03/06/2016	1,777.52
North Halifax Grammar Academy	19/05/2016	10/06/2016	14,901.36
The Bishop Konstant Catholic Trust (English Martyrs)	19/05/2016	13/06/2016	4,694.88
John Smeaton Academy	19/05/2016	13/06/2016	10,891.69

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Report of the Director West Yorkshire Pension Fund to the meeting of Pension Board to be held on 9 November 2016.

E

Subject: Consultation on amendments to the Local Government Pension Scheme 2014

Summary statement:

This report updates the Pension Board on changes and proposed changes to the Local Government Pension Scheme (LGPS) 2014 to implement the Fair Deal for staff transferring out of the public sector, Freedom of choice access to Additional Voluntary Contribution pots, and a number of technical amendments required for efficient administration.

Recommendations

It is recommended that Members note the report.

Rodney Barton
Director

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E-mail: Rodney,barton@bradford.gov.uk

Report Contact: Tracy Weaver
Phone: (01274) 433571
E-mail: tracy.weaver@wypf.org.uk

1 Background

1.1 The Local Government Pension Scheme (LGPS) 2014 was introduced on 1 April 2014.

1.2 Since the introduction of the new LGPS there have been two sets amendment regulations issued.

- Local Government Pension Scheme (Amendment) Regulations 2015, which provided technical amendments to the LGPS Regulations
- Local Government Pension Scheme (Amendment) (Governance) Regulations 2015, which provided for the setting up of Local Government Pension Boards.

2 Consultation on further amendments to the LGPS Regulations

2.1 On 27 May 2016 Department for Community and Local Government issued a further consultation which includes draft amendment Regulations. This can be viewed by following the link below:

http://www.lgpsregs.org/images/Drafts/2016-05LGPSAmendsCons.pdf

2.2 The consultation and draft regulations provide for:

- The implementation of the reformed Fair Deal for Staff Pensions Provisions in to the LGPS Regulations;
- The Introduction of additional ways in which a scheme member can access their Additional Voluntary Contribution 'pots', as part of the Government's 'Freedom and Choice in Pensions' policy; and
- Technical amendments to provide clarifications that have been requested by Practioners and to improve the operation of the regulations.

2.3 Fair Deal for Staff Pensions sets out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. In October 2013 the Government issued new Guidance on Fair Deal for Staff Pensions which requires staff transferring from the public sector to have continued access to their public service pension scheme rather than being offered a broadly comparable private pension scheme, as was previously the case.

2.4 The consultation closed on 20 August 2016 and a copy of WYPF's response is attached at Appendix 1.

3 Recommendations

It is recommended the Members note the proposed amendments to the LGPS Regulations.

Appendix 1

West Yorkshire Pension Fund
Lincolnshire Pension Fund
Administered by City of Bradford Metropolitan District Council
PO Box 67 Bradford BD1 1UP
www.wypf.org.uk

Vincent Kiddell
Workforce, Pay and Pensions
Department for Communities and
Local Government
SE Quarter Fry Building
2 Marsham Street
London
SW1P 4DF

Our reference: TSM/TW
Your reference:

Fax: 01274 723228
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E-mail: wypf@bradford.gov.uk

19 August 2016

Dear Vincent

Local Government Pension Scheme (LGPS) Amendment Regulations

I refer to the consultation document inviting comments on changes to the LGPS Regulations.

My response is on behalf of West Yorkshire Pension Fund (WYPF).

WYPF is supportive of the general proposals for Fair Deal in the LGPS contained in the consultation document. However, WYPF would like to make some comments with regards to the intended scope. WYPF feels that the proposals should not apply to admission bodies contained in Part 3 of Schedule 2 as they are not covered by the Best Value Staff Transfers (Pensions) Direction 2007 and could put extra burdens on them. If an admission body did award a contract and the successful contractor wished to obtain admission body status this could be achieved through paragraph 1(d) of Part 3 of Schedule 2.

WYPF also has concerns with allowing admission agreements to be backdated as this removes the incentive for admission agreements to be entered into promptly. What would happen if an admission agreement was not entered into before the contract was terminated?

WYPF feels that that an amendment to regulation 64(3)(a) is required which will mean that the Scheme employer letting the contract will be responsible for any unmet liabilities of a Protected Transferee Employer rather than them being passed to all Scheme employers contributing to the Fund.

On a connected matter WYPF feels that a regulation similar to regulation 16(7) of the LGPS (Administration) Regulations 2008 should be included for members who become protected transferees and other members whose employment is compulsorily transferred to another employer.

WYPF welcomes the greater flexibility proposed for how members may choose to take their Additional Voluntary Contributions (AVCs) in the future. However, WYPF feels that further amendments are necessary to extend the provisions to deferred members who only have AVC benefits in the Scheme, and Pension Credit members. WYPF also feels that the amendments made by Regulation 9 should have an effective date approximately 3 months after the Amendment Regulations have been laid in Parliament to enable Administering Authorities and AVC providers to put revised procedures in place.

For draft regulation 10(b) WYPF feels that proposed regulation 21(5A) should include a provision to use a lower level of pensionable pay where the pensionable received during the specified period is higher than normally received.

WYPF welcomes the proposed changes in Regulation 11 to Regulation 22. However, WYPF feels that there should be no retrospection or any opportunity for members whose membership has been linked because they failed to make an election to undo this.

WYPF welcomes the proposed change in Regulation 24 which would allow members that left under the LGPS (Benefits, Membership and Contributions) Regulations 2007 to elect to receive an actuarially reduced pension between the ages of 55 and 59 without employer consent. WYPF also feels that this proposed provision should be extended to members that left under earlier regulations as this would mean that they are treated equitably with more recent leavers.

WYPF has serious reservations about the proposal in draft regulation 25 which could potentially lead to Administering Authorities having to provide underpin protections to certain members who have transferred in benefits from other public service pension schemes, has this may cause significant administrative difficulties for little gain.

Yours sincerely

Tracy Weaver

Tracy Weaver
Technical Services Manager
Phone: 01274 433571

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www.bradford.gov.uk

Report of the Director West Yorkshire Pension Fund to the meeting of Pension Board to be held on 9 November 2016.

F

Subject: Update on the 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, and is planned to begin in January 2017.

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 and this began on 6 April 2016.

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

Rodney Barton
Director

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

1. Update

1.1 We have already 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 and the Fire and Rescue Authorities.

1.2 This work was initially scheduled to begin June 2016, while the duration will be determined by the number of records which require attention. When the initial data match is completed in January, we will be able to determine the resources required to complete the GMP reconciliation.

1.3 This work has been re-scheduled to begin January 2017, due to unexpected additional demands on staff time.

1.4 The principal reasons are:

- The introduction of new factors by the Government Actuary's Department (GAD), which were completely unexpected. Changes to factor tables are usually well flagged, and software suppliers given time to make the required system changes.
- Work which could not be completed for the 2014 Scheme again due to software delays because the Government were late in releasing the new regulations had to be completed prior to the preparation of annual benefit statements, which had a deadline of 31st August 2016.
- The valuation software did not run as anticipated due to the new Scheme, requiring considerable input from our staff to assist the software supplier in developing solutions.
- Simultaneously, a new processing system had to be developed to post the Fire Authorities contributions, for our 7 fire clients, adding to the pressure on the relevant staff teams and our software supplier.

1.9 We are aware that WYPF is not the only large pension administrator which has not started this work yet, and will ensure all interested parties are kept informed of progress.

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Report of the Director, West Yorkshire Pension Fund, to the meeting of Pension Board to be held on 9 November 2016.

G

Subject:
Minutes of West Yorkshire Pension Fund (WYPF) Joint Advisory Group held on 28 July 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 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 of the 28 July 2016.

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

Rodney Barton
Director

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Portfolio:

Overview & Scrutiny Area:

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City of Bradford MDC
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Minutes of a meeting of the WYPF Joint Advisory Group held on Thursday, 28 July 2016 at WYPF, Aldermanbury House, Bradford

Commenced 1.00 pm
Concluded 2.15 pm

Present –

Bradford Members Miller Lal Amran	**Calderdale Members** Baines Lynn Metcalfe
Kirklees Members Fadia Richards Asif	**Leeds Members** Davey Harrand
Wakefield Members Jones Foster	**Trade Union Representatives** L Bailey - Unison I Greenwood – Unison
Scheme Members W Robinson	

Apologies: Councillor Thornton (Bradford); Councillor Dawson (Leeds); Councillor Speight (Wakefield) T Chard (GMB) and Scheme Member K Sutcliffe.

1. APPOINTMENT OF CHAIR

Resolved –

That Councillor Thornton be elected Chair for the Municipal Year 2016-2017

2. APPOINTMENT OF DEPUTY CHAIR

Resolved -

That Councillor Miller be elected Deputy Chair for the Municipal Year 2016/17.

Councillor Miller in the Chair

3. 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: City Solicitor

4. MINUTES

Resolved -

That the minutes of the meeting held on 28 January 2016 be signed as a correct record.

5. INSPECTION OF REPORTS AND BACKGROUND PAPERS

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

6. WEST YORKSHIRE PENSION FUND (WYPF) ADMINISTRATION OUTTURN 31 MARCH 2016

The report of the Director, West Yorkshire Pension Fund (**Document "A**") summarised the total costs of administering pensions and investments in 2015/16 for WYPF.

Appended to the report was an analysis of the total cost of operations for 2015/16 showing variance against revised budget and 2014/15 costs. A detailed explanation of a variance between the revised estimate and outturn figure of £95,000 was provided.

A variance on WYPF Oversight and Governance was raised. It was explained that the variance was due to CIPFA guidance now requiring some expenditure costs being reclassified from Investment Costs into the Oversight and Governance costs. A view that the previous classification was a more accurate account was expressed.

Resolved –

That the WYPF total cost of administering pensions and investments for 2015/16, contained in Document "A", be noted.

Action: Director, West Yorkshire Pension Fund.

7. UNAUDITED REPORT AND ACCOUNTS 2015/16

The WYPF unaudited Report and Accounts for the financial year 31 March 2016 were appended to the report of the Director, West Yorkshire Pension Fund (**Document "B**).

Members were advised that once the final audit was completed the audited Report and Accounts would be presented to the Joint Advisory Group at the meeting in January 2017.

The report revealed that the only Key Performance Indicator which had not been exceeded was the provision of pension estimates. It was explained that Government guidance had required changes to internal software systems. A delay in receipt of that guidance had prevented software suppliers adapting their systems and more detailed manual calculations had been required as a result. Enquires to the fund had been prioritised with the most urgent issues being given priority. In response to suggestions that the target be lowered it was stressed that work was in progress to achieve the target and whilst the performance figures were high the fund wished to maintain that level of service.

Members questioned the risk to the fund's portfolio which could arise from fossil fuel disinvestment. In response it was reported that the Investment Advisory Panel, at its meeting in November 2015, had discussed the issue in detail. It had concluded its satisfaction with the existing portfolio but had agreed that investigations into alternative sources should be continued. The Investment Advisory Panel had discussed, at its meeting earlier today, a report produced by a specialist carbon disposal operator on plans to reduce oil costs and extraction of energy. Assurances were provided that the portfolio was reviewed on a regular basis and all investments, in terms of risk and reward were monitored. In ensuing discussions about fossil fuels the Fund's ability to influence that industry through their investments was acknowledged.

Following discussions about the impact of a potential significant increase in redundancy payments it was explained that the fund valuation did include cash flow forecasts and Members would be kept advised of any liquidity issues arising.

Resolved –

That the unaudited WYPF Report and Accounts for the financial year ended 31 March 2016, appended to Document "B", be approved.

Action: Director, West Yorkshire Pension Fund.

8. AUDIT STRATEGY MEMORANDUM 2015/16

The report of the Director, West Yorkshire Pension Fund, (**Document "C**"), contained the Audit Strategy Memorandum which set out the plan for the external audit of West Yorkshire Pension Fund 2015/16.

The document provided an assessment of significant risks of material error and work to mitigate that risk. Members were assured that the risks outlined were inherent to most organisations and were common and standard to a Pension Fund of the size of WYPF. The audit was underway and not yet completed but had not identified any material matters to which Members should be altered.

It was questioned if the process had changed in recent times to reflect the increasing use of information technology. In response it was confirmed that IT specialists were utilised to undertake programme reviews and testing and that no specific risks had been identified.

Resolved –

That the Audit Strategy Memorandum 2015/16, contained in Document "C", be noted.

Action: Director, West Yorkshire Pension Fund.

9. INVESTMENT REFORM CRITERIA AND GUIDANCE - INVESTMENT POOLING

The Director, West Yorkshire Pension Fund, presented a report, (**Document "D**"), 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. The report also included proposals for asset pooling in the LGPS which had been submitted to the Government on 15 July 2016.

Members were reminded that on 25 November the Investment Reform Criteria and Guidance was issued, which set out the criteria to be applied to the pooling of LGPS assets. Authorities had been invited to submit their initial proposals for pooling by 19 February 2016. West Yorkshire Pension Fund (WYPF) together with Greater Manchester and Merseyside duly submitted its proposals by the deadline. The submission and the Minister's response were available on the WYPF website. A more comprehensive proposal had been submitted to the Government on 15 July 2016 and that submission would be assessed against the criteria in Document "D".

It was questioned if a response to the submission on 15 July had been received together with any agreement on assets to be held outside of the pool. The Director, West Yorkshire Pension Fund confirmed that a common response had been received to the proposals submitted in February.

The response submitted by the WYPF in July 2016 revealed that as the cost base for management of listed assets was so low it was likely that WYPF costs would rise as a result of pooling. WYPF had requested consideration should be given to allowing it to retain its listed investments outside the pool for a period in order to establish a baseline low cost for managing listed assets. Members

voiced their agreement with that request and suggested their support, and their strong belief that WYPF must not be made to raise costs, should be conveyed.

Resolved –

That the submission to Government appended to Document "D" and the continued development of pooling arrangements also contained in Document "D" and subject to Government response, be noted.

Action: Director, West Yorkshire Pension Fund

10. LOCAL GOVERNMENT PENSION SCHEME 2014

The Director, West Yorkshire Pension Fund, presented a report (**Document "E**) which updated Members on changes and proposed changes to the Local Government Pension Scheme (LGPS) 2014.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

11. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) PROVIDERS

Annually the WYPF ask Aon Hewitt's Investment Consulting Division to review the performance of Additional Voluntary Contribution Providers in terms of investment performance, financial strength, investment capabilities, charging structure and administration. The report of the West Yorkshire Pension Fund Director, (**Document "F**") outlined the findings of the review.

An amendment to 3.10 of Document "E" was tabled and provided the annual management charges for SSgA Emerging Markets Equity Index Fund which had been omitted from Document "F".

Members were advised that issues about the costs of Prudential had been raised. Prudential had maintained that as they provided additional services for WYPF members they incurred additional administrative costs. Efforts were being progressed to reduce those costs.

Resolved –

That the outcome of the annual review of WYPF's AVC providers be noted and the recommendations of Aon Hewitt to make changes to the lifestyle options set out in paragraphs 3.6; 3.8 and 4.5 of Document "F" be approved.

Action: Director, West Yorkshire Pension Fund

12. 2016 ACTUARIAL VALUATION

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

The report provided Members with a summary of the proposed approach to the actuarial valuation at 31 March 2016 by the Fund's actuary. Economic conditions, referred to in the report, were discussed and the likelihood of volatile conditions influencing the choice of discount rate was questioned. In response, dynamic discussions, which Members were assured were always undertaken with the actuary, were explained. The main objective of those discussions was to maintain as steady a contribution rate as possible for the main employers.

Resolved -

That the report be noted.

Action: Director, West Yorkshire Pension Fund

13. REGISTER OF BREACHES OF THE PENSIONS REGULATOR'S CODE OF CONDUCT

The report of the Director, West Yorkshire Pension Fund, (**Document "H**"), informed Members that in accordance with the Pensions Act 2004 (the Act), from April 2015 all Public Service Pension Schemes came under the remit of the Pensions Regulator.
Section 70 of 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 would 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.

In accordance with the WYPF Breaches Procedure a register of any breaches of the Pensions Regulator Code of Practice was maintained. The Register of Breaches 2016 and Late Payment of Contributions, April 2016, due by May 2016 were appended to the report.
Members were assured that a report on the Register of Breaches would be provided to each meeting to ensure Members were aware of any contraventions.

Resolved –

That the entries, all of which relate to late payment contributions by employers, on the Register of Breaches be noted.

Action: Director, West Yorkshire Pension Fund

14. RISK MANAGEMENT

The report of the Director, West Yorkshire Pension Fund, (**Document "I**") presented the latest WYPF Departmental Risk Management Report.

The report revealed that 42 risks had been identified. Members were advised that the risks had been rated. Of those risks 20 had been rated above their acceptable tolerance level and 22 below the tolerance line. To mitigate those risks an Action Management Plan had been developed and each risk was owned and reviewed by a senior manager of the fund. The Action Management Plan was contained at Appendix 1 to Document "I".

The impact of Government Budget cuts was raised by Members and it was questioned how risks outside the control of the fund were managed. In response it was explained that if there should be a level of redundancy way above what was predicted at the actuarial valuation the Fund had the ability to divest short term liquid investments to meet liabilities. Any such measures would always be discussed with the Investment Advisory Panel and a communication exercise would be undertaken with Members.

The Director was thanked for the production of an understandable and informative risk management matrix.

Resolved –

That the West Yorkshire Pension Fund Risk Management Report be noted.

Action: Director, West Yorkshire Pension Fund

15. SHARED SERVICE PARTNERSHIP WITH LINCOLNSHIRE PENSION FUND

Members were reminded that West Yorkshire Pension Fund's (WYPF) shared service partnership to provide a pension's administration service for Lincolnshire Pension Fund (LPF) had commenced on 1 April 2015.

The report of the Director, West Yorkshire Pension Fund, (**Document "J")**, provided an update on the partnership to date. The report included performance and benchmarking and contained an analysis of performance against key areas of work for the period 1 April 2015 to 31 March 2016 as measured against both local indicators and the national CIPFA benchmarks.

Scheme information including an age profile of the scheme and the number of employers were provided. An administration update reported the issuing of life certificates to all 18,000 pensioner members to monitor their continuing entitlement to a pension from LPF. It was explained that a life certificate exercise had not previously been conducted by LPF. The likelihood of fraud being detected arising from that exercise was questioned and it was anticipated that this would minimal.

Issues which had been encountered with the quality and timing of data received from Lincolnshire were reported and work undertaken to receive monthly returns was discussed. The benefits of shared services to the whole of the WYPF were reiterated.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

16. EXTERNAL BUSINESS - PENSION ADMINISTRATION FOR THE FIREFIGHTERS' PENSION SCHEMES

Members were advised that West Yorkshire Pension Fund provided a shared service partnership to provide a pensions administration service for seven Fire Authorities. The report of the Director, West Yorkshire Pension Fund, (**Document "K")** was presented to provide an update on the business to date.

The background to the report revealed that West Yorkshire Pension Fund (WYPF) provided a shared service partnership to provide a pensions administration service for seven Fire Authorities. The majority of the fire service business had been won through tender process which meant that there were different prices and service level agreements in place for each of those authorities. It was explained that work was being undertaken to move all of the authorities to a shared service arrangement.

In recognition of its achievements Members were advised that, at the recent Pension Scheme of the Year Awards held in London, the Fund had won the Best Use of IT and Technology Award.

Resolved –

That the report be noted.

Action: Director, West Yorkshire Pension Fund

17. TRAINING, CONFERENCES AND SEMINARS

The Director, West Yorkshire Pension Fund, submitted a report, (**Document "L"),** 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 advised that training to understand their responsibilities and the issues they would be dealing with was a very high priority and that they were encouraged, and would be fully supported, to undertake such training by the Fund.

No resolution was passed on this item.

18. ANNUAL MEETINGS

The report of the Director, West Yorkshire Pension Fund (**Document "M")** advised members of two Annual Meetings, one for Employers and one for Scheme Members which would be held in 2016.

Resolved –

That the details of the Annual Meetings, contained in Document "M" be noted.

Action: Director, West Yorkshire Pension Fund

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the WYPF Joint Advisory Group.

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

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City of Bradford MDC
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Report of the Director, West Yorkshire Pension Fund, to the meeting of Pension Board to be held on 9 November 2016.

H

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.

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

Rodney Barton
Director

Report contact: Caroline Blackburn
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Portfolio:

Overview & Scrutiny Area:

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 Northern Pension Funds Investment Conference
  Manchester 22 November 2016

- LAPFF Conference
  Highcliff Marriott, Bournemouth 7-9 December 2016

- LGPS "Trustee" Training Fundamentals XV
  (3 different locations) details sent to board members by email.(See course flyer)

- 2016/17 LGPS Local Pension Boards and Officers information updates, training and networking seminar programmes
  Various dates and locations (See course flyer).

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. Date of next meeting

- 19 April 2017 (Wednesday)

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 9 November 2016.

I

Subject:
Minutes of West Yorkshire Pension Fund (WYPF) Investment Advisory Panel held on 28 April 2016 and 28 July 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 Investment Advisory Panel are 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(s).

Rodney Barton
Director

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Portfolio:

Overview & Scrutiny Area:

8. NOT FOR PUBLICATION DOCUMENTS

The appendices to this report at Not for Publication as they contain information which it is considered to be exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the financial implications of any decision without prejudicing the financial position of the West Yorkshire Pension Fund.

11. APPENDICES

Not for Publication Appendix 1 - Minutes of the Investment Advisory Panel held on 28 April 2016
Not for Publication Appendix 2 - Minutes of the Investment Advisory Panel held on 28 July 2016