

Nottinghamshire Pension Fund Committee

Tuesday, 21 June 2016 at 14:00

County Hall, County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

- 1 To note the appointment of Councillor Reg Adair as Chair and Councillor Mike Pringle as Vice-Chair of the Pensions Investment Sub-Committee at the Full Council meeting held on 12 May 2016
- 2 Minutes of the last meeting held on 15 March 2016 3 - 4
- 3 Apologies for Absence
- 4 Declarations of Interests by Members and Officers:- (see note below)
(a) Disclosable Pecuniary Interests
(b) Private Interests (pecuniary and non-pecuniary)
- 5 Local government pension scheme - Application for Admission Body Status 5 - 8
- 6 Local Government Pensions Scheme Central Business Plan 9 - 14

7 EXCLUSION OF THE PUBLIC

The Sub-Committee will be invited to resolve

“That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in paragraph 3 of the Local Government (Access to Information) (Variation) Order 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

Note

If this is agreed, the public will have to leave the meeting during consideration of the following items.

8 Local Government Pension Scheme – Central Business Plan

Notes

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact David Forster (Tel. 0115 977 3552) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>



Meeting **NOTTINGHAMSHIRE PENSION FUND COMMITTEE**

Date **Tuesday, 15 March 2016 (commencing at 2.00m)**

membership

Persons absent are marked with 'A'

COUNCILLORS

Reg Adair (Chair)
Mike Pringle (Vice-Chairman)

	Chris Barnfather	Ken Rigby
A	Ian Campbell	Parry Tsimbirdis
	Mrs Kay Cutts	John Wilkinson
	Sheila Place	

OFFICERS IN ATTENDANCE

Susan Bearman	(Resources)
Simon Cunnington	(Resources)
Dave Forster	(Resources)
Keith Palframan	(Resources)
Sarah Stevenson	(Resources)

MINUTES

The Minutes of the last meeting of the Committee held on 8 September 2015, having been previously circulated, were confirmed and signed by the Chair.

APOLOGY FOR ABSENCE

None

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None

**LOCAL GOVERNMENT PENSION SCHEME - APPLICATION FOR
ADMISSION BODY STATUS**

Mrs Stevenson introduced the accounts and took members through the report.

RESOLVED: 2016/001

That the Application for Admission Body Status be noted

LOCAL PENSIONS BOARD – UPDATE

Ms S Bearman introduced the report and informed members of the progress in the membership of the Pensions Board

RESOLVED: 2016/002

That the progress of arrangements for the Local Pensions Board be noted

ASSET POOLING AND CONSULTATION ON REVISED INVESTMENT REGULATIONS

Mr Cunningham introduced the report and took members through the proposed responses to the government proposals regarding pooling assets

RESOLVED 2016/003

That the response to pooling investments within the Local Government Pension Scheme be noted.

CONFERENCE AND TRAINING

RESOLVED 2016/004

That the attendance at conferences and training as set out in paragraph 3 of the report be approved.

The meeting closed at 2.14 pm.

CHAIRMAN

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS & HR**LOCAL GOVERNMENT PENSION SCHEME - APPLICATION FOR
ADMISSION BODY STATUS****1. Purpose of the Report**

- 1.1. The purpose of this report is to inform the Pensions Committee of the proposed admission of two admission bodies (as detailed on the attached appendices) into the Nottinghamshire Pension Fund under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

2. Information and Advice

- 2.1. The scheme regulations require LGPS Pension Funds to allow an admission to its scheme if the organisation is one that is providing or which will provide a service or assets in connection with the exercise of a function of a scheme employer, as a result of the transfer of the service or assets by means of a contract or other arrangement.
- 2.2. Where an admission body and the scheme employer undertake to meet the relevant requirements of Schedule 2 (part 3), an administering authority must admit to the LGPS the eligible employees of the admission body, and where it does so, the terms on which it does are noted in the admission agreement for the purposes of these Regulations.
- 2.3. Investigations have been made and it can be confirmed that each body named in the attached appendices falls within the definition contained in Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013 and as such will be eligible to become an admission body. Under Schedule 2 (part 3) (13), the administering authority must admit to the scheme the eligible designated employees of the admission body, provided the admission body undertakes to meet the relevant requirements of the regulations through an admission agreement.
- 2.4. Both admission applications have been made on an 'open' basis whereby, in addition to securing pension protection for transferring staff, the admission agreement will include the flexibility to deem employees subsequently employed in connection with the delivery of the service as eligible to join the scheme. For the awareness of members, the alternative 'closed' basis would restrict eligibility to join the scheme to transferring staff only.
- 2.5. The County Council will seek to sign an appropriate admission agreement to allow the bodies listed in Appendix A and B to be admitted to the Nottinghamshire Pension Fund. When the admission agreement is formed the admission bodies will be required to pay

contribution rates as determined by the Fund Actuary.

3. Statutory and Policy Implications

- 3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

4. Recommendation

- 4.1 The Pensions Committee is recommended to note the contents of the report.

MARJORIE TOWARD

SERVICE DIRECTOR – CUSTOMERS & HR

For any enquiries about this report please contact:

Andy Durrant, Technical & Performance Officer on 0115 9775690 or

andy.durrant@nottsc.gov.uk

Human Resources Implications (JP)

As outlined within the body of the report, admission body status will allow transferring staff continued membership eligibility of the LGPS. Where the service transfer relates to Nottinghamshire County Council, full consultation has been undertaken with affected staff and the recognised trade unions in line with TUPE requirements. In respect of other service transfers the current employing body is responsible for undertaking the equivalent consultation.

Constitutional Comments (KK)

Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (SC)

There are no financial implications arising directly from this report. As noted in the report, employer contributions to be paid by admission bodies are determined by the Fund Actuary.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

Appendix A

Proposed admission of Via East Midlands Limited into the Nottinghamshire Pension Fund, as an admission body under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

Via East Midlands Limited has a contractual agreement with Nottinghamshire County Council to undertake the authority's highways and fleet management service functions. The service transfer is to take place on 1st July 2016. The contract period is 10 years with a 5 year extension option.

This arrangement will involve the TUPE transfer of approximately 650 staff currently employed by Nottinghamshire County Council to deliver the service function.

Via East Midlands Limited intend to allow continuity of LGPS membership through an admission agreement with the Nottinghamshire Pension Fund. The admission agreement will deem employees of the company engaged in delivery of the service as eligible to join the scheme.

Appendix B

Proposed admission of Arc Property Services Partnership Limited into the Nottinghamshire Pension Fund, as an admission body under the provisions of Schedule 2 (part 3) of the Local Government Pension Scheme Regulations 2013.

Arc Property Services Partnership Limited has a contractual agreement with Nottinghamshire County Council to undertake the authority's property services function. The service transfer took place on 1st June 2016. The contract period is 10 years.

This arrangement involved the TUPE transfer of 71 staff currently employed by Nottinghamshire County Council to deliver the service function.

Arc Property Services Partnership Limited intend to allow continuity of LGPS membership through an admission agreement with the Nottinghamshire Pension Fund. The admission agreement will deem employees of the company engaged in delivery of the service as eligible to join the scheme.

21 June 2016**Agenda Item:****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &
IMPROVEMENT****LGPS CENTRAL BUSINESS CASE****Purpose of the Report**

1. To provide an update on progress regarding the pooling of investments in the Local Government Pension Scheme (LGPS). To ratify the decisions to use an FCA regulated authorised structure for the LGPS Central investment pool and to create/build an operator. To agree the business case for the LGPS Central investment pool for the DCLG submission on investment pooling required by 15 July 2016.

Information and Advice

2. At its meeting on 15 March 2016, this Committee was notified of the Fund's initial response to the government's request for proposals on asset pooling including the creation of a multi asset investment pool called LGPS Central expected to be some £34 billion in size. This report brings the business case for LGPS Central which will form the basis of the detailed submission to government due by 15 July 2016. The Committee's Chair and Vice-Chair and the Council's s151 Officer have been kept informed throughout the discussions on the business case.
3. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the attached exempt appendix.

Recommended legal structures and governance arrangements

4. In order to meet the Government's criterion for strong governance, legal and governance structures need to be put into place that are suitably robust. There are two realistic options, both put forward in the Project Pool submission made by LGPS funds and facilitated by Hymans Robertson.
5. The option agreed unanimously by the funds participating in the LGPS Central investment pool is that an FCA regulated authorised structure should be used. This will involve using a collective investment vehicle (CIV) with an authorised contractual scheme (ACS) and other legal structures for assets. This option is robust, in alignment with LGPS Central's requirements and with the Government's criteria. At meetings with officials from the Department for Communities and Local Government (DCLG), the Treasury and the Local

Government Association (LGA), it was made clear that an FCA regulated structure was the Government's strong preference.

6. The other option, a collective asset pool, which has no legal status and would be overseen by a Joint Committee providing governance oversight, was considered to be insufficiently robust and unlikely to meet the Government's criteria.
7. Having agreed a corporate structure, fund officers have explored the options for establishing an operator for the LGPS Central investment pool. They have agreed that of the three available options, the build option (ie creating an operator) is strongly recommended as it is estimated to be the most cost effective for the long term and provides the most flexibility for the establishment and management of the operator. With respect to the other two options, to buy or to rent an existing operator, the former has limited availability and the latter gives less flexibility (coupled with higher long term costs).
8. The Committee is recommended to formally ratify these decisions.

Business case

9. The next stage in the process is to agree a business case for the detailed submission to DCLG. In order to produce a business case, an external adviser has been needed and following a tendering process, Deloitte was appointed for this task with support from Eversheds on the legal considerations. The business case, which is attached in the exempt appendix, rests on meeting the Government's four criteria as follows.
10. **Governance.** The FCA regulated authorised structure is expected to meet the governance criteria set by the Government. The proposed operator will be owned equally by each fund participating in the LGPS Central investment pool with one share and one vote per fund. The structures to be put in place will ensure that participating funds oversee the management of the operator (via a shareholders' forum) and that their investment management needs are also met (via a practitioners' advisory forum).
11. A draft responsible investment framework for the LGPS Central investment pool has been prepared and is attached as an annex to the business case. The framework is designed to address the Government's requirement for investment pools to address environmental, governance and social issues.
12. **Scale.** With some £34 billion of assets, the LGPS Central investment pool will meet the Government's size criterion – the expectation is for the new investment pools to have at least £25 billion of assets. Very few exceptions will be requested – one is for the West Midlands Transport Authority's fund's buy in policy (valued at £250 million) and the other is for cash held for operational, non-investment purposes, expected to be very modest in scale.
13. **Costs and cost savings.** Modelling has been done, using relatively conservative assumptions around transition costs and fee reductions, on costs and cost savings for the LGPS Central investment pool over the fifteen year period to 31 March 2034. The base case projection is that annual investment costs then will be £152 million after operator running costs, compared with £196 million in 2014/15, representing an annual cost saving of £44 million by then. Cumulative savings for the LGPS Central investment pool are estimated at £262 million by 31 March 2034, with break-even expected by 31 March 2026.

14. Cost savings will be secured through economies of scale and mandate rationalisation, fee negotiations and more use of direct (rather than more expensive indirect) investment. The LGPS Central investment pool will deploy both internal and external investment management. The base case for cost savings assumes that the current mix of internal and external investment management remains but the savings are projected to be higher with greater use of internal management.
15. The set up costs for the LGPS Central investment pool are estimated to be between £3 million and £4 million with Nottinghamshire's share estimated at between £0.4 million and £0.5 million. Once set up, annual operator costs are projected to be around £5.2 million. Transition costs are estimated to be significant – one off costs of £50 million are projected across the pool.
16. In Nottinghamshire's case specifically, annual cost savings are estimated to be £685,000 per annum in 2033/34 compared with 2014/15. The cost savings assume no changes in asset allocation or fund size and have been struck after operator running costs. More savings could be secured through the greater use of internal management (up to £2.7 million annual savings by 2033/34).
17. **Infrastructure.** One of the Government's criteria is to encourage more investment in infrastructure. The strategic decision to invest in the asset class will remain with administering authorities, with implementation resting with the new investment pools, including LGPS Central.
18. National infrastructure platform options are currently being explored by the LGPS, including LGPS Central, in order to enable better access to suitable opportunities in the UK. A national infrastructure platform will lead to lower fees and should enable better diversification.
19. The current weighted target allocation to infrastructure for the LGPS Central investment pool is 4%, with 1.5% actually invested. The target is expected to rise to over 5% in the coming years. In the case of Nottinghamshire, the target allocation to infrastructure is 5%, with 1% actually invested.
20. The Committee is recommended to agree the business case.

Programme planning and timing

21. Once all of the funds participating in the LGPS Central investment pool have approved the business case, there will be a meeting of Committee Chairs, Vice-Chairs and Section 151 Officers on 8 July 2016 at which it will be ratified. A copy of the draft resolution to be signed by each participating fund is attached in an annex to the business case. The business case will be submitted to the DCLG for its approval by no later than 15 July 2016.
22. It is planned that the operator will be incubated in October 2016 and a shareholders' agreement will need to be signed in advance of that. Pending that, a memorandum of understanding has been agreed between the participating funds and this is attached as an annex to the business case.
23. Key executives will need to be appointed by no later than April 2017, ahead of the application for FCA registration. This will ensure that the LGPS Central investment pool will be set up by no later than 1 April 2018.

Resourcing

24. A substantial amount of work will be required for the LGPS Central investment pool to be set up properly. Each participating fund is devoting resources to the workstreams supporting the business case.
25. In order to incubate the operator and determine key objectives in the coming months, external advisers will need to be procured by the end of July 2016, to provide advice on the operational, business, accounting, legal and taxation issues associated with setting up the LGPS Central investment pool. Headhunters will need to be appointed so that a Chief Executive and Chief Operating Officer are in place by April 2017. These appointments will be needed by then so that FCA registration can take place and it will be important too that fit for purpose IT systems are put in place in advance of the set up date of 1 April 2018.

Communications

26. It is planned that monthly briefing notes will be circulated to Committee members in order to keep them informed of the progress in setting up the LGPS Central investment pool.
27. A weblink enabling Committee members to access documentation on the LGPS Central investment pool will be set up shortly - details of how to access the weblink will be circulated in the near future.
28. A communications policy and strategy for the LGPS Central investment pool are attached as annexes to the business case.

Reason/s for Recommendation/s

29. In July 2015, the Government announced its 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. In November 2015 the Department for Communities and Local Government (DCLG) published *Local Government Pension Scheme: Investment Reform Criteria and Guidance* and asked for refined and completed submissions by 15 July 2016, which fully address the criteria from DCLG. The recommendations are intended to ensure that an acceptable submission is made by the required deadline.
30. Under the terms of the Council's constitution, the Nottinghamshire Pension Fund Committee is responsible for all decisions in relation to administering the Nottinghamshire Pension Fund, including investments by and management of pension funds. This report makes recommendations regarding the investments of the Fund.

Statutory and Policy Implications

31. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

It is recommended that:

- 1) Progress regarding the pooling of investments in the LGPS be noted.
- 2) The decision to use an FCA authorised structure with an operator for it to be created and built is ratified.
- 3) The LGPS Central investment pool's business case for submission to the DCLG, including the draft responsible investment framework and other annexes, is agreed.

Report Author:

Simon Cunnington

Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Constitutional Comments (SLB 08/06/16)

32. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (SRC 08/06/16)

33. The financial implications to the Fund are set out in the exempt appendix.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 'None'

