

## **Pensions Sub-Committee**

**Thursday, 14 July 2016 at 10:30**

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

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### **AGENDA**

- |   |  |         |
|---|--|---------|
| 1 | Minutes of the last meeting held on 5 May 2016   | 5 - 8   |
| 2 | Apologies for Absence  |         |
| 3 | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |         |
| 4 | LGPS Trustees Conference   | 9 - 16  |
| 5 | Nottinghamshire Pension Fund Triennial Valuation Update – oral report  |         |
| 6 | Asset Allocation presentation  |         |
| 7 | Pensions Lifetime Savings Association LA Conference 2016   | 17 - 24 |
| 8 | LGPS Central Submission  | 25 - 28 |
| 9 | Pensions Working Party   | 29 - 30 |

## 10 EXCLUSION OF THE PUBLIC

The 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 **exempt items**.

## 11 Exempt appendix LGPS Central Submission

## 12 Working Party Exempt appendix and report of the Independent Advisor

### **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>





## minutes

Meeting PENSIONS SUB COMMITTEE

Date Thursday 5 May 2016 at 10.30 am

### **membership**

Persons absent are marked with 'A'

### **COUNCILLORS**

Reg Adair (Chairman)  
A Mike Pringle (Vice Chairman)

A Chris Barnfather  
A Ian Campbell  
Mrs Kay Cutts

A Sheila Place  
Ken Rigby  
Parry Tsimbiridis  
John Wilkinson

### **Nottingham City Council**

A Councillor Alan Clark  
A Councillor Nick McDonald  
Councillor Anne Peach

### **Nottinghamshire Local Authorities' Association**

Councillor Richard Jackson – Broxtowe Borough Council  
Kate Allsop – Executive Mayor Mansfield District Council

### **Trades Unions**

Mr A Woodward  
Mr C King

### **Scheduled Bodies**

Mrs Sue Reader

### **Pensioners**

A Mr S Haggerty  
Mr T Needham

### **Independent Advisor**

Mr William Bourne

### **Officers in Attendance**

|                  |  |
|------------------|--|
| Nigel Stevenson  | (Service Director – Finance Procurement and Improvement) |
| Simon Cunnington | (Resources)  |
| David Forster    | (Resources)  |
| Neil Robinson    | (Resources)  |
| Ciaran Guilfoyle | (Resources)  |
| John Clewes      | (Resources)  |
| Sarah Stevenson  | (Resources)  |
| Andy Durrant     | (Resources)  |
| Marjorie Toward  | (Service Director Human Resources)                       |

### **MINUTES**

The minutes of the last meeting of the Sub-Committee held on 5 March 2016, having been previously circulated, were confirmed and signed by the Chairman.

### **APOLOGIES FOR ABSENCE**

Apologies for absence were received from

Councillor Mike Pringle  
Councillor Ken Rigby  
City Councillor Nick McDonald  
City Councillor Alan Clark  
Alan Woodward (Union Rep)

### **DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

None.

### **LOCAL GOVERNMENT PENSION SCHEME – LGPS WEBSITE UPDATE**

Mr Clewes gave a slide presentation on the current development of the County Councils LGPS Pensions website. He informed members that it was expected to go live in June 2016 with member's portals coming into the next tranche of development.

On a motion by the Chairman, seconded by the Vice Chair it was:-

### **RESOLVED 2016/009**

That the presentation and report be noted

### **LGPS –YEAR END PROCESS UPDATE**

On a motion by the Chairman, seconded by the Vice Chair it was:-

#### **RESOLVED 2016/010**

That the yearend process update be noted

### **LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING**

On a motion by the Chairman, seconded by the Vice Chair it was:-

#### **RESOLVED 2016/011**

That the report be noted.

### **PROXY VOTING**

On a motion by the Chairman, seconded by the Vice Chair it was:-

#### **RESOLVED: 2016/012**

That the report on Proxy Voting be noted

### **LGPS ASSET POOLING**

On a motion by the Chairman, seconded by the Vice Chair it was:-

#### **RESOLVED: 2016/013**

That the report of Asset Pooling be noted

### **WORKING PARTY RECOMMENDATIONS**

On a motion by the Chairman, seconded by the Vice Chair it was:-

#### **RESOLVED: 2016/014**

That the Working Party report be noted

### **EXCLUSION OF THE PUBLIC**

#### **RESOLVED: 2016/015**

That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve the disclosure of exempt information as 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.

## **EXEMPT INFORMATION ITEMS**

### **EXEMPT APPENDIX ASSET POOLING AND CONSULTATION ON REVISED INVESTMENT REGULATIONS**

On a motion by the Chairman, seconded by the Vice Chair it was:-

**RESOLVED: 2016/016**

That the Exempt appendix be noted.

### **WORKING PARTY EXEMPT APPENDIX AND REPORT OF THE INDEPENDENT ADVISOR**

On a motion by the Chairman, seconded by the Vice Chair it was:-

**RESOLVED: 2016/017**

That the Working Party report and the independent Advisors report be noted

The meeting concluded at 11.55 am

**CHAIRMAN**



**Agenda Item:****REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT**  
**LGPS TRUSTEES CONFERENCE 2016****Purpose of the Report**

1. To report on the 13th Annual LGPS Trustees Conference.

**Information and Advice**

2. The 13<sup>th</sup> Annual LGPS Trustees Conference, organised by the Local Government Pensions Committee (LGPC), was held on 23 to 24 June 2016 in Manchester. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Terry Needham Pensioners representative, and Jonathan Clewes (Pensions Team Manager).

3. **Keynote Address**

The Keynote Address was presented by Angela Rayner MP Shadow Pension Minister, who covered a number of main topics including the transparency of costs on pension funds relating to investment costs. She also focused on increasing pension's awareness and the need to be more flexible relating to the state pension age.

4. **Pooling – without making a splash**

David Walker, Head of LGPS Investments, Hymans Robertson, acknowledged that this is a busy period for funds with the concept of Asset Pooling. He explained about the 8 provisional pools, and the need to make the best use of pools by using the purchasing power to reduce costs, with other benefits including better governance, along with sharing and building knowledge and expertise as well as greater engagement across funds and pools.

David went onto describe the main objective for the LGPS is to generate long term real returns above inflation along with trying to address issues relating to management fees being too expensive, along with the balance of risk not being right, and the desire for development versus operational risk.

5. **Drive towards cost Transparency in UK Pension Funds**

Dr Christopher Sier Professor, Newcastle University Business School. This was a very interesting presentation relating to the costs of investment management and the need for transparency towards costs within UK Pension Funds. It was explained that there is a lot going on and especially the Financial Consumers Panel driving towards cost transparency in

UK Pension funds. He explained that the cost of pension funds in the UK and globally, are not well understood, either by the consumer or by the Pension Fund.

Please see the link to the document “The Drive towards Cost Transparency in UK Pension Funds.

[https://www.fs-cp.org.uk/sites/default/files/finalthe\\_drive\\_towards\\_cost\\_transparency\\_in\\_uk\\_pension\\_funds\\_2015\\_2016.pdf](https://www.fs-cp.org.uk/sites/default/files/finalthe_drive_towards_cost_transparency_in_uk_pension_funds_2015_2016.pdf)

## **6. Pension Tax – Implications for the LGPS**

Kirsty Bartlett, Squire Patton Boggs outlined the impact of recent changes in tax limits and this relates to the maximum amount of pension savings in a registered pension scheme without incurring an additional tax charge (includes savings across all schemes of which member. The LTA has reduced from £1.5m to £1m from 6 April 2016 and the LTA will be indexed from April 2018 to rise annually in line with the CPI

Kirsty went on to explain about the Annual Allowance and the reduction to £40K for Tax year 2015/16

The practical points for funds is that the Fund must notify members whose LGPS benefits have exceeded the Annual Allowance which was acknowledged that identification of all potentially affected members could be a problem in practice. The reduction in the Annual Allowance leads to more individuals being affected by tax charges. This allows members to cover the charge and make a corresponding reduction in benefits. It applies only in certain circumstances and can be quite complicated.

There was an update on the 2016 Budget where there were few changes which impact the LGPS directly, talked about the Lifetime ISA, the increase in employer-funded independent financial advice, the introduction of a new guidance body to replace Money Advice Service, the Pensions Advice Service and Pensions Wise. Then finally the government are ensuring that the pensions industry designs, funds and launches a pension’s dashboard by 2019.

Still to come are the restrictions on salary sacrifice schemes, pension ISA’s, flat rate tax relief, and clawback of past tax relief.

## **7. Around the Corner – IN or OUT (presented on 23 June)**

This was presented by John Exley KPMG, the presentation looked at the potential implication of staying in the EU or the future if there was a vote out. On the day the a remain vote was perceived to return to status quo but with possible political fall out in the Conservative Party along with weakened negotiating power of the UK in Europe. It was presented that there would be more uncertainty around what the future would look like on a leave vote. The general consensus was that there would be significant short term disruption and temporary (or otherwise) impact on growth and investment. It was stated that the long term picture would be unclear, with the possibility that the change would not mean any difference from the current position. There was also the position that Europe could actually

operate better as a EURO zone, or it could fracture. There was also the possibility that Scottish independence could resurface. Given the points raised it was very unclear what the impact on the markets was going to be.

John went onto explain what the impact would be on the following:

- Currency
- Rates
- Inflation
- Equities
- Credit
- UK property

The conclusion was that a remain vote would mean a return to the status quo, but John hedged his bet and stated possibly not. It was also stated that a leave vote would create significant uncertainty over the next few years. The general consensus at the time on some key markets responding to a leave vote was:

- The currency would weaken further on exit
- Short term inflation impact
- Impact on UK property not certain but unlikely to be positive

It was also reported that there was less consensus on other markets on a leave vote

- UK interest rates were considered a real puzzle
- UK equities more affected by global issues – including wider impact on Brexit
- Credit markets will have winners and losers.

The final comment was “possible interesting times ..... From about 5am on Friday 24 June.

## 8. Outlook for 2016 Valuation

Graham Muir, Barnett Waddingham gave a view on the outlook for the 2016 valuation focusing on how valuations are done and the key issues. The valuation is undertaken through three steps:

- Step 1 Projection of all possible benefit payments for each member
- Step 2 Attach probabilities to each possible payment to get “expected” payments
- Step 3 Discount “expected” payments to obtain the “value”

In undertaking the valuation there are a number of assumptions these being:

- Cash flows, including inflation and mortality and other statistical assumptions
- They identify expected payments, the discount rate
- Funding valuation – expected future investment returns

Graham then took us through the change in Asset values from March 13 to March 16 looking at projected assets, Uk equities, and Uk gilts.

Therefore the calculation includes

- Value of assets
- Value of Liabilities
- Future Inflation
- Future mortality
- Future investment returns/ discount rate.

As part of the process there is a need to compare funds and the reasons for this are as follows:

- Concerns over scheme data and comparisons
- The purpose of comparing is to spot the “good funds”/ “bad funds” and identify are employers paying “enough”
- Funds are different though with different investment strategies/ mortality/ risk appetites/ time horizons/ funding plans

The final part of the presentation went into mortality screening using CMI\_2015 model which predicts lower life expectancies and therefore expect lower liability valuation.

## 9. The Government Actuary

Martin Clarke presented a view on the LGPS comprising of 91 separate funds with their own valuation processes and corresponding contribution outcomes. He focused on the in aggregate the LGPS had liabilities of £204bn compared with assets of £181bn in 2013. He went on to describe a review which is designed to provide an overview of the 91 separate valuations by four actuarial firms, and the appropriateness of the employer contributions.

## 10. UNISON's View 2016

Glyn Jenkins Head of pension's head of pensions Unison presented Unison's view 2016 on the LGPS England and Wales he made a number of points these being that the LGPS remains affordable and any problems relate to the past. He also stated what Unison believe to be the main challenges these being:

- The LGPS must remain open to new members and protect those that are involved in outsourcing.
- The assumptions for the next valuation
- The increase in NI in April
- Possible change to tax relief
- Pension's freedom.

In terms of what needs to be done Unison put forward a number of points, the main point being tackling deficits?

- They hope that new fund boards will be given a chance to work and to improve the transparency and operation of fund management.

- Unison believe that something must be done about charges especially controlling and disclosing transaction charges.
- Let's look at all assumptions – swap best estimates for prudence. Let's not forget it is statutory scheme with a very strong employer covenant.

## **11. Markets in Financial Instruments Directive (MiFID II) + Institutions for Occupational Retirement Provisions (IORPs)**

In broad terms, MiFID II is concerned with the framework of trading venues/structures in which financial instruments are traded.

The IORP Directive is a modern, comprehensive prudential framework designed to secure the retirement income of European citizens. It lays down that pension funds should:

- Have sufficient assets to cover pension commitments
- Possess professionally qualified governing bodies, sound administrative procedures and adequate internal control mechanisms
- Be transparent towards plan members by clearly communicating the target level of benefits, risk exposure and investment management costs.

Given the vote to leave the implications were identified as:

- HMG would need to trigger Article 50 – which has been part of some of the recent discussions on the leave vote.
- Then 2 years to decide UK-EU relationship
- There is a likelihood of continued compliance with much of IORP II and MiFID II

Given the vote a number of issues and actions were identified, these being:

- Potential impact on the scheme portfolio – potential fire sale
- Monitor latest developments. The LGA in discussion with DCLG/ HMT re pooling and mitigating the election process.
- Discuss with the scheme investment managers what their plans are.

## **12. Investment Outlook: Time to sink or swim**

The final presentation focused on what has happened in the investment markets over the last 12 months. It was clear that it had been a year of rollercoaster ride for the markets, with China's economy slowing down all be it there still being growth in their economy but not as much as in recent years, as their economy moves from an investment led to a consumption led economy. The price of oil has had an impact with the supply being the key due to sale oil having an impact and reducing the cost. Interest rates have also been low with no increase in the foreseeable future. Other impacts on the markets have been the possible impact of Donald Trump and him running for President, with his rhetoric on his policies which may have an impact on global trade.

The increase in robotic technology is also making its mark, along with emerging markets being in the news for not good reasons especially South America, the Volkswagen

emissions scandal and the BHS pension's deficit have also had an impact, along with the vote to leave.

The presentation went on to look at where are the opportunities for investment, performance in the equity market over the past 5 years culminating in 2015 with Japan, USA and Europe the best performing with the UK in 4<sup>th</sup> place.

It was identified that property opportunities are changing with a move away from high street shopping to large online warehousing as the growth area. High yield bonds were also identified these being Energy, materials, Hotels & leisure, capital Goods and retail. However it is important to be selective.

In respect of defensive assets it was stated that funds should not rely on the traditional defensive assets like Government bonds, but should be looking for "lifeguard assets" to help out in times of trouble, and if all else fails Cash is King.

The final message was be careful when looking at infrastructure, hedge against the unknown.

In terms of all the above the important considerations when pooling assets is look at the breadth of the investments, along with flexibility in being able to move the portfolio, but be selective, be careful with emerging markets. While obvious it is necessary to limit unforced errors and this can be done with an extra level of scrutiny.

## **Statutory and Policy Implications**

13. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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.

## **RECOMMENDATION/S**

- 1) That it be noted that attendance at key conferences is part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills.
- 2) That the report be noted

**Report author:**  
**Jonathan Clewes**  
**Pensions Manager**

**For any enquiries about this report please contact: Jonathan Clewes**

## **Constitutional Comments**

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

## **Financial Comments**

15. There are no financial implications arising from this report. (SC

## **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.

Copy of The conference documentation “In at the deep end”





14 July 2016

**Agenda Item:****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT****PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) LOCAL AUTHORITY CONFERENCE 2016****Purpose of the Report**

1. To report on the PLSA Local Authority Conference 2016 held in the Cotswolds.

**Information and Advice**

2. The PLSA Conference 2016 was held on 16<sup>th</sup> to 18<sup>th</sup> May 2016 at the Cotswold Water Park Four Pillars Hotel in Gloucestershire. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills; the conference was attended by Councillor Reg Adair, Chris King (Unison) and Mr Nigel Stevenson (Service Director – Finance, Procurement & Improvement). The theme of this year's conference was 'Efficient, transparent, collaborative: Shaping in the modern LGPS'.

3. ***Pre-Conference Meetings***

The conference commenced with a number of sessions covering topics such as capital preservation vs outperforming the market (arguing that LGPS funds should concentrate on absolute and long-term total returns rather than market benchmark performance and short performance evaluation) and a session about using smart beta to improve performance over passive managed index-linked equity investments. These included presentations from Newton Investment Management and State Street Global Advisors

4. ***Joanne Segars, Chief Executive, PLSA***

The main conference began with Joanne Segars welcoming everyone to the Conference and setting the tone for the event. She began by highlighting a number of challenges facing the LGPS including:

- The EU referendum
- Striving for efficiencies through right investment opportunities, are they affordable and are the investment regulations appropriate
- Getting our capital allocations correct and are we investing for the long term
- Are there too many risks in the LGPS and are the benefits affordable
- How do we ensure the right approach to pooling of investments in the LGPS is made
- Are the timescales for pooling submissions too tight and how we ensure the correct governance arrangements are in place, and
- What is the role of the Pension Board?

5. ***A Political Imperative***

Marcus Jones MP, Local Government Minister gave his personal views on what he is looking for from the submission of the pooling proposals and what he sees as the greatest benefits, and risks, of pooling assets in the LGPS.

Overall he was satisfied with the momentum for pooling but reiterated concerns over correct governance structures and the need for greater ambition for investment in infrastructure (although no targets would be set). He also indicated that the Government Actuary's Department (GAD) would review the 2016 LGPS valuation – to be published in 2018. In addition, the unprecedented number of responses to the consultation on changes to the investment regulations (23,000) would cause a delay in publishing these regulations. The intention would be to move away from prescription to more prudential approach and he spent time trying to allay fears over the concerns raised on the proposed intervention powers for the Secretary of State.

He concluded his speech with a reiteration of the statement on the review that GAD will do and the question to be answered on affordability – and potential implications to benefits.

In responses to questions the Minister explained about his ambition for infrastructure investment, although he wasn't able to answer Councillor Adair's question on providing a definition of infrastructure. He recognised the national issue on shorter recovery periods for academies due to their weaker covenant but did not propose that the Government would provide the same covenant to academies as provided to local government. Unfortunately, he also expressed his disappointment that the lack of progress on Fair Deal, Aggregation and Investment Regulations was down to civil servants. In addition, he indicated that there were no plans to change the position of local authority Members being able to join the LGPS.

## **6. *Controlling All Costs***

The 2016 valuation will be critical to the sustainable future of the LGPS. How will the new cost control mechanism shape this valuation and how can we ensure fair measurement of deficits across the LGPS? This session was led by Martin Clarke, Government Actuary, Government Actuary's Department, Councillor Roger Phillips, Chair of the Scheme Advisory Board and Fiona Farmer, National Officer, Unite the Union.

Martin began his presentation by explaining that GAD were concluding their review of the 2013 valuations of the LGPS based on the 4 themes of compliance with regulations, consistency between valuations, overall solvency and long-term cost efficiency. This had no statutory force and was based on a sample of valuations but set identified well known issues of comparability (including variances in discount rates), differing recovery periods and overall affordability concluding with RAG ratings on the 4 themes. This exercise would help them prepare for the major review of the 2016 LGPS valuations.

Fiona's presentation centred on the issue of affordability of the LGPS and the two masters that will assess this, GAD and the Scheme Advisory Board (SAB). Roger's presentation also looked at the scheme affordability question and the issues of comparability between funds. He also explained how the HMT has hard rules on affordability of the scheme ('the cost cap') which will change the scheme benefits (through negotiation or imposition) whereas the SAB can only recommend changes. Both start from differing ceilings as to affordability.

We are too early in the valuation cycle to yet know if the cost cap, under either model, will be breached or not.

## **7. Concurrent Sessions**

A number of concurrent sessions were delivered:

### **a) Good Governance – Being a Local Pension Board**

This session looked at the governance arrangements for local pension boards and the areas they should be focusing on and included presentations from Neil Mason, Senior Advisor, Surrey Pension Fund and John Raisin, Chair, Merseyside Local Pension Board (and also adviser to the Nottinghamshire Pension Board).

### **b) Broadening your horizons**

As the monumental changes in the LGPS sector play out there are several important questions that arise about the approach the new pools will take to investment management. One of these questions is around the length of investments. There is growing evidence that unconstrained active management is most effective over a full market cycle (7 years), but at the same time we see an increased tendency for governance structures to create a focus on one and three year numbers. The LGPS may need to consider their time horizon in this new environment and the possible implications that follow. This session included presentations from Ben Kotter, Institutional Portfolio Manager, MFS and Mathew Dawson, Treasury and Pension Fund Manager, Warwickshire Pension Fund.

The discussion that followed included the setting up of the Pools and how Funds submit their criteria to get their say in the final choice of Managers to ensure transparency on appointments.

### **c) Exploiting behavioural finance to enable trustees decision making**

The impact on human behavioural biases on decision making is a well-known and well-documented phenomenon. But can we harness the power of these biases to help Trustees make better long term strategic decisions as well as invest assets on a day to day basis to profit from the behaviours in the market? This session reviewed how an awareness of these biases can be harnessed to ensure optimal investment decision making and practical ways of implementing investment strategies and included presentations from Daniel Melley, Global Head of Consultant Relations, Winton and Mark Wynn, Head of Finance, Cheshire West and Chester Council.

## **8. Good governance and the LGPS**

Chaired by Joanne Segars, this session explored one of the Government's key criteria for pools; that they improve the governance of the LGPS. This session was led by Dawn Turner, Head of Pension Fund Management, Environment Agency, Mike Ellsmore, Chair of Local Pension Boards at Croydon, Southwark and Sutton and Karen McWilliam, Head of Public Sector Benefits Consultancy at Aon Hewitt.

Karen's presentation concentrated on the differing roles staff and members play as trustees of their local funds and the need to ensure whilst wearing the different hats everyone stays focused on their active role.

Mike's presentation reiterated the point that we shouldn't forget the good performance of the LGPS over the last 20 years (returning over 8%, being 5% above inflation) so we must be doing something right. The attributes of good governance are stability, consistency of approach, openness and taking the long-term view. As a consequence, we need to remember, when setting up the pools, that the financial obligation rests with the employers and not with the pool. It is important then that there is good communication to avoid employers feeling distant from the pools.

Dawn's presentation began with reminding everyone of fiduciary duty - 'an individual in whom another has placed the utmost trust and confidence to manage and protect property or money. The relationship wherein one person has an obligation to act to another's benefit'. As a consequence it is important as we move towards pools that there are proper transparent business plans and strategies in place, with excellent performance management and reporting and with the relevant risk management strategies, all focused on outcomes.

## 9. *Concurrent Sessions*

A number of concurrent sessions were delivered.

### a) The valuation – can you keep it simple please?

Leanne Johnston, Principal, Mercer and Euan Miller, Assistant Executive Director, Greater Manchester Pension Fund, discussed how deficits keep increasing despite assets have done well. The temptations that exist to pull complex levers to control them are inevitable. Whilst Leanne explained that the valuation process is simple, both argued that getting to the right answer in the valuation is rather complex. Especially as you have multiple employers, all with differing funding levels and deficit recovery periods, with differing covenants, differing member profiles and differing asset strategies. Consequently, standardised funding level comparisons are inevitably difficult.

### b) Investment regulations – investing in a world without restriction

Ralph McClelland, Associate Director, Sackers and Alex Younger, Investment & Actuarial Services Manager, Norfolk Pension Fund discussed what the new investment regulations ultimately mean, how funds should be approaching their investment strategy statements and what prudence means in the LGPS. Both presenters argued that the new regime would mean better transparency over decisions and that since pools were here the regulations would need to change. Both were also concerned by the extension of the Secretary of State's powers to intervene and although Marcus Jones MP had indicated earlier in the day how he would see these powers being used the drafting was far wider than anticipated.

### c) Managing Information

Kevin McDonald, Director, Essex Pension Fund, Jen Mullis, Assistant Director, Department for Business, Innovation and Skills and Matt White, Assistant Director, Department for Education discussed the role of education bodies in the LGPS scheme and the wider challenges and considerations bearing in mind the change in status of employers as well as new employers joining the scheme.

### d) What are the issues that face local pension boards

Open to members of Local Pension Boards (LPB) this session intended to set out the main issues facing LPB including legal status, their work programme and their role in the pooling.

## 10. **Combining forces**

Regardless of the many challenges associated with the day job, pooling is clearly at the top of everyone's agenda. In this session we had an opportunity to hear from Fiona Miller, Border to Coast and Matthew Trebilcock, Project Brunel on the progress these two pools are making. Sharing what are the real opportunities and challenges and how we ensure that all these pools will fit together.

Fiona and Matthew began with the summary of pooling and why we are here. The Border to Coast Pension Partnership (BCPP) will bring together 13 funds, with an asset value of £35.9bn, representing 905,995 members and 2,166 employers. The Brunel Pension Partnership (BPP) will bring together 10 funds, with an asset value of £23.2bn, representing 641,790 members and 1,537 employers. There appears to be some consistency across all proposals surrounding the governance, namely:

- a) On fund, one vote
- b) Equitable sharing of costs
- c) Asset allocation remaining with the funds
- d) Clear segregation between the Fund and the Pool
- e) Democratic accountability retained
- f) Three tiers of control
  - Supervisory entity
  - Executive body
  - Investment management
- g) Regulated structures where appropriate

Both also saw savings derived from external management fees, rationalisation of mandates and managers, moving from external to internal management and opportunities for investments. The speed of moving to internal and more passive management would depend on existing internal management capacity.

As a consequence of pooling the lead officers from each of the pools had had the opportunity to meet to 'check and challenge' progress and collaborate on proposals. Both presenters thought the biggest issues currently were the time to complete this work, balancing this with existing commitments, communication and the need for consistent support, guidance and advice.

In response to questions both Fiona and Matthew saw pooling as bringing more benefits and opportunities, as well as the ability to provide more resilience but it would be at an initial cost.

## 11. **Weathering new challenges**

The global economic climate remains somewhat cloudy, and the forecast calls for only the slightest chance of interest rate rises on this side of the Atlantic. Carl Tannenbaum, Chief Economist, Northern Trust gave a fascinating presentation on the economic prospects during the balance of 2016 and what can policy makers do to help clear the horizon. His conclusions were:

- The global outlook is cloudy, but he expects China to avoid a hard landing
- Performance will continue to be somewhat uneven, some regions and sectors are further along

- Risks to the outlook are varied, with the potential for complicated politics

In response to questions, particularly on increases in bond rates and inflation (William Bourne) Carl indicated that oil prices being so low was having an impact. As these rise so CPI will increase. One day interest rates will go up hence the argument for austerity now so as to avoid costs due to government debt being too high. However, in his view what was needed now was global infrastructure investment to boost global economic growth rather than debt reduction.

## 12. ***Investing for success***

One of the critical issues facing the new pools will be how to balance the investment needs of the participating funds with the requirement to reduce the overall number of mandates. This session was led by Julian Pendock, Investment Oversight Director, London CIV and Mark Wynn, LGPS Central Pool.

Mark began his presentation with an explanation of the Central Pool proposal including governance, very similar to Fiona Miller (Border to Coast) and Matthew Trebilcock, (Project Brunel) presentations. As the Fund would now concentrate on identifying the liability profile, the investment strategy and manage the relationships with the Pool (supplier and shareholder) there would be a number of roles he would be giving up, namely;

- Local implementation
- Manager oversight and monitoring
- Manager monitoring and due diligence
- Manager hiring and firing
- Resources

Julian gave a presentation on the progress of the London CIV which covered the aspect of not underestimating the time and cost to set it up as well as the very complex challenges and discussions that needed to be worked through. Julian's experience indicated that merging a large number of investment mandates into a few would take time and would need to build trust and confidence in all parties for it to be successful,

## 13. ***Transaction costs – clear as mud?***

We are now over a year into the new guidance for disclosing transaction costs. How have funds found the process of uncovering these costs, what more is to come and what is still missing? This session was led by Peter Dorward, Royal London Independent Governance Committee, David Kane, Head of Finance, West Midlands Pension Fund and Chris Hitchen, Chief Executive, RPMI.

This was a very dry subject and it was a difficult task for the presenters to make this an exciting session. Most of the session surrounded the changes made by Cipfa into the task of identifying transactional costs with all management fees but, as this is not compulsory, no one yet has been brave enough to do so. Although this may add to the transparency agenda they could be open to misinterpretation and it was doubtful they would add to the comparative data debate. This proved to be an area where further work was required.

## 14. ***Best practice for employers participating in the LGPS***

It's no secret that the number of employers is expanding rapidly and that the challenging economic climate is making life difficult for admitted bodies. The 2016 valuation is likely to bring new challenges and difficult discussions. So how do employers looking to participate in



the scheme get on the front foot? This session was led by Helen Forrest Hall, Policy Lead: DB, Pensions and Lifetime Savings Association, John Prior, Principal, Punter Southall and Nick Stones, Partner, Pinsent Masons.

Again this proved to be a disappointing debate with most of it concentrating on issues that new employers, especially small contractors, may face in joining the LGPS.

#### 15. **Political Reality**

The conference concluded with Michael Crick, Political Journalist & Broadcaster giving his views on the interesting political times in which we now live, from local, Scottish and Mayoral Elections in early May, to an EU referendum in June and the US General Election in November. He went on to hypothecate on what the future may look if the EU referendum meant exit, Boris Johnson could be Prime Minister and Donald Trump could be on his way to the Whitehouse.

### **Statutory and Policy Implications**

16. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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.

### **RECOMMENDATIONS**

- 1) That it be noted that attendance at key conferences is part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills.
- 2) That the report be noted

#### **Report author:**

**Nigel Stevenson**

**Service Director – Finance, Procurement & Improvement**

**For any enquiries about this report please contact: Nigel Stevenson**

#### **Constitutional Comments**

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

#### **Financial Comments (SRC 29/05/16)**

18. There are no direct financial implications arising from this report.

#### **Background Papers**

None





**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT****LGPS CENTRAL SUBMISSION****Purpose of the Report**

1. To provide an update on progress regarding the pooling of investments in the Local Government Pension Scheme (LGPS) and to report LGPS Central investment pool's submission to DCLG.

**Information and Advice**

2. 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.
3. The Sub-Committee has had regular updates on progress with asset pooling within the LGPS and on the creation of LGPS Central investment pool. The Committee's Chair and Vice-Chair and the Council's s151 Officer have been kept informed throughout the discussions on the business case which will form the basis of the detailed submission to government due by 15 July 2016. The submission from LGPS Central is attached as an exempt appendix.

**Government criteria**

4. **Governance.** 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. 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.
5. Having agreed a corporate structure, fund officers, with support from Deloitte and Eversheds, have explored options for establishing an operator for the LGPS Central investment pool. They have agreed that 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.

6. 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). Charts showing the proposed structure and governance arrangements are included in the submission.
7. 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.
8. **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.
9. **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.
10. 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.
11. The set up costs for the LGPS Central investment pool are estimated to be between £3 million and £4 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) although actual costs may well be substantially lower.
12. 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).
13. **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.

14. 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.
15. 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.

### **Programme planning, timing and resourcing**

16. A meeting of Committee Chairs, Vice-Chairs and Section 151 Officers was held on 8 July 2016 to finally confirm the submission. 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.
17. 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.
18. 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. A programme board will be established to oversee progress.
19. 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**

20. A communications policy and strategy for the LGPS Central investment pool is attached as annexes to the business case. 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. 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.

### **Statutory and Policy Implications**

21. 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**

- 1) That the report be noted.

**Report Author: Simon Cunnington**  
**Senior Accountant – Pensions & Treasury Management**

**For any enquiries about this report please contact: Simon Cunnington**

### **Constitutional Comments**

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

### **Financial Comments (SRC 06/07/16)**

23. The financial implications to the Fund are set out in the report and 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'

14 July 2016

**Agenda Item:****REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &  
IMPROVEMENT****PENSIONS WORKING PARTY****Purpose of the Report**

1. To report the discussions at the Pensions Working Party in respect of the Fund's Specialist Portfolio.

**Information and Advice**

2. This report is to inform the Sub-Committee of the discussions at the Pensions Working Party. 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 exempt appendices.
3. A meeting of the Pensions Working Party was held on 30 June 2016 to discuss proposals relating to the Fund's equity benchmarks and the Specialist Portfolio. The following members of the Sub-Committee attended:

|                                 |                      |
|---------------------------------|----------------------|
| Councillor Reg Adair            | County Councillor    |
| Councillor Mike Pringle         | County Councillor    |
| Councillor Chris Barnfather     | County Councillor    |
| Councillor John Wilkinson       | County Councillor    |
| Chris King                      | Union Representative |
| William Bourne (City Noble Ltd) | Independent Adviser  |

4. As agreed previously, a review has been undertaken of the assets within the Specialist Portfolio. The meeting considered a paper prepared by William Bourne, the Fund's independent advisor, regarding this review and recommendations for changes. The paper is attached as an exempt appendix.

**Statutory and Policy Implications**

5. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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.

## **RECOMMENDATION/S**

- 1) That the report be noted

### **Report Author:**

**Simon Cunnington**

**Senior Accountant – Pensions & Treasury Management**

**For any enquiries about this report please contact: Simon Cunnington**

### **Constitutional Comments**

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

### **Financial Comments (SRC 06/07/16)**

7. The financial implications are outlined 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