

## North Yorkshire County Council

### Pension Board

Minutes of the meeting of the Pension Board held on 1 October 2015 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

**Members of the Board**

David Portlock (Independent Chairman).

Employer Representatives;

County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York) and Louise Branford-White (Hambleton District Council).

Scheme Members:-

Ben Drake, (Unison), Gordon Gresty, Stella Smethurst (Unison) and Mandy Swithenbank.

**In attendance:-**

County Council Officers: Anna Binks, Barry Khan, Steve Loach, Catriona Lowin, Tom Morrison and Jo Wade.

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**Copies of all documents considered are in the Minute Book**

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**11. Declarations of any Interests**

A discussion took place on the Council's policy for the declaration and register of interests and it was noted that a separate policy had been approved for Members of the Board, in accordance with pensions legislation. It was noted, therefore, at this stage, that there were no interests to declare.

**12. Apologies for Absence**

There were no apologies for absence.

**13. Minutes**

**Resolved -**

That, subject to the following clarification, the Minutes of the meeting held on 30 July 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record:-

It was clarified that in respect of Minute No. 8, Declarations of Interests, there was no requirement to complete a Register of Interests form, similar to those required of County Councillors sitting on other committees.

#### **14. Public Questions or Statements**

There were no questions or statements received from members of the public.

#### **15. Governance Issues**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) responding to governance issues raised by the Pension Board at the previous meeting.

At that meeting Members of the Board raised issues in relation to the membership and appointment process and the remit of the Board (Minute No. 6 2015/15 refers).

The Assistant Chief Executive (Legal and Democratic Services) responded to the concerns highlighting the following:-

- ◆ The Pension Board had wide discretion on how it wished to appoint employee/member representatives. The Board could determine its assessment criteria based on a number of factors and an appointment process should be published in an open and transparent way so that all Members had equal opportunity to be nominated. It was noted that it was possible for the terms of reference to include a requirement that Scheme Member representatives would be selected by election by Scheme Members, however, it was noted that preliminary research indicated that most Pension Boards had used an appointment process based on merit. Also, those that had used elections were less likely to do so in the future. He emphasised that both selection process and elections were permissible. This allowed Pension Board members to be chosen based on relevant skills, experience, ability and capacity as well as popularity.
- ◆ In terms of the issues relating to the remit of the Board it was noted that the purpose of the Pension Board was to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme Regulations, other pension legislation and the requirements of the Pension Regulator. Whilst being given access to all relevant information in fulfilling its functions, including confidential reports of the Pension Fund Committee, it was noted that the Board should not seek to undertake the work of the Pension Fund Committee nor comment on matters that do not come under the Board's remit. Regulations were clear that no officer or Councillor who was on a Pension Fund Committee could be a Member of the Pension Board as their roles were distinct and the Board would carry out its duties of ensuring compliance with the Pension Scheme Rules and legislation. It was emphasised that the Pension Board was not a scrutiny body of the Pension Fund Committee but had a wide remit in ensuring compliance with the rules. The Pension Board should be able to comment on the agenda and performance of the Pension Fund Committee in so far as it related to the Scheme's compliance with the Rules.

#### **Membership and appointment process**

Members of the Board raised the following points and issues:-

- ◆ Elections for the retired members' representative would require consultation with around 37,000 people and, therefore, would be very costly.
- ◆ The Trade Union representatives indicated that they could operate elections in a more cost-effective manner for their members and an election process would be more democratic.
- ◆ It was noted that there had been some choice in terms of the selection process, as not everyone had been selected from the applications received. The Chairman noted that skills etc had been assessed in relation to the applications to determine those with the relevant experience for service on the Pension Board.
- ◆ It was stated that only six people had applied for the employee representative positions despite being publicised, therefore, undertaking elections was unlikely to stimulate much more interest.
- ◆ It was noted that the terms of reference and the framework for the Pension Board that went through full County Council had indicated that an appointment process would be used. If Members wished to change that framework and process then a recommendation would have to be submitted to County Council for them to agree to those changes. It was suggested that, if Members were so inclined and wished to see an election process brought in in place of an appointment process, then this could be considered at a future meeting and introduced, via the County Council, at a later stage. The Chairman noted that he had no involvement with the setting of the terms of reference, this had been done by the County Council.
- ◆ A Member noted that the positions on the Board had been widely advertised and people could have applied if they wished to. He considered it appropriate that the Board continue as it is and, if it was considered that the current arrangements were not working, then they could be reconsidered.
- ◆ An employers' representative emphasised that there had been a proper process with their organisations which determined that they would be the representative on the Pension Board.
- ◆ Members considered that, for the time being, the present situation should continue, but it be kept on record that the view of the unions was that representatives on the Pension Board should be the result of an election process.

### **Remit of the Board**

Members outlined their views in relation to this issue, including the following issues and points:-

- ◆ A Member sought clarification of the report submitted by the Assistant Chief Executive (Legal and Democratic Services) which indicated that the Board was not a scrutiny committee of the Pension Fund Committee. He stated that the role of the Pension Board was to scrutinise the governance and administration arrangements of the Pension Fund but not to scrutinise individual Committee decisions.

- ◆ It was noted that Pension Board Members had requested copies of the papers submitted to the Pension Fund Committee. It was stated that the previous Advisory Committee used to receive those papers and it was felt appropriate that the Board should also receive them. In response it was stated that the Pension Board would be provided with the papers from the Pension Fund Committee, enabling them to discuss those papers at the subsequent meeting of the Pension Board as appropriate. The Chair of the Pension Board would then feed back to the Pension Fund Committee on those discussions.
- ◆ Members of the Board emphasised the need to ensure that their role was clearly determined from the start so as not to duplicate the role of other bodies, for example the Audit Committee. It was emphasised that the Pension Board had a governance and compliance role in terms of the Pension Fund Committee and was not a scrutiny committee in the typical sense. The Chairman noted that guidance would be provided by officers in terms of the remit ensuring that issues were pursued that were within that remit.

#### **Resolved -**

That, subject to the issues outlined by the Unison representatives in relation to the membership and appointment process being taken into account, with further consideration of this matter, following an appropriate initial bedding in period for the Board, the report be noted, together with the issues raised.

#### **16. North Yorkshire Pension Fund Annual Report 2014/15 and the Auditor's Report on the Pension Fund Audit**

##### **Considered -**

The report of Legal and Democratic Services presenting, for review, the Annual Report 2014/15 of the North Yorkshire Pension Fund (NYPF) and the Auditor's final report to the North Yorkshire County Council Audit Committee on the Local Government Pension Fund audit.

It was noted that both the documents had been presented to the Pension Fund Committee and North Yorkshire County Council's Audit Committee, and both had approved the documents, with the Chairman of the Audit Committee signing both of these off.

Details of the processes followed in terms of the delivery of the Annual Report and the audit were outlined and it was noted that the External Auditor had submitted a report on the audit process. In terms of that it was noted that the External Auditors had identified unadjusted misstatements which were however not material, relating to a difference in valuations given by two Fund Managers resulting from price variations on the last day of the financial year.

Members of the Board discussed the reports and the following issues were outlined:-

- ◆ The unadjusted misstatements were challenged and it was asked why it wasn't possible to have a consistent end of day price. However, it was noted that it was not always straight forward as the investments could be in different parts of the world in different time zones. It was emphasised that discrepancies in the valuations, such as this, were inevitable.

- ◆ It was noted that the external audit arrangements were about to change with KPMG coming in to replace Deloitte.
- ◆ A Member considered that whilst the Annual Report presented an optimistic view of the Pension Fund, he suggested that there were some issues contained within the report that did not give rise to that optimism. He noted that there were a large number of deferred pensioners, and there is now less money coming into the Fund due to reductions in the number of employees resulting from austerity measures, and that investment performance can be very volatile. He considered that these were very important factors, going forward, and should have been emphasised more within the Report. It was stated in response that the Pension Fund Committee did take account of volatility in the markets and how this affected the Fund's investments. It was emphasised that volatility in the financial markets was inevitable and an accepted part of the Fund's long term plan to recover the deficit. The investment strategy was working well and it was emphasised that the North Yorkshire Pension Fund had been the top performing Fund within the Local Government Pension Scheme over the last five years. It was noted that the Pension Fund Committee continued to monitor and update the investment strategy taking into account market conditions, cash flow and the funding level.
- ◆ A Member noted that over the long term the assets of the Pension Fund had performed well and the Committee had taken steps to try and address the volatility in markets through altering the investment strategy.
- ◆ A Member stated that, in terms of the solvency level, the low interest rates over the past few years had not helped in addressing liabilities, however, the potential for interest rates to rise could have significant positive impact. It was noted that Pension Fund Committee was taking account of pressures on the Fund in terms of falling numbers of employees and the effect that had on the cash surplus. The cash surplus was currently around £8-10m per year and, therefore, this was unlikely to become negative in the very short term, allowing an appropriate strategy to be developed in relation to this in due course. It was noted that the potential for interest rate movements were also being considered by the Pension Fund Committee and the consequential impact on the Fund's liabilities.
- ◆ Members considered the above issues would be taken into consideration during the forthcoming Triennial Valuation and considered it appropriate that they continued to keep abreast of the situation through Pension Board meetings.
- ◆ It was noted that the recommendation in the report asked Members of the Board to outline any issues, comments or suggestions in relation to the Annual Report and accounts, and it was asked whether there were any significant issues to outline. Members highlighted the issues raised within the Annual Report regarding data requirements being far more complex under the LGPS Scheme since April 2014 and asked whether the strategy document was being updated to take account of that. It was noted that the strategy documents were updated and reviewed every year to take account of emerging issues.

- ◆ The complex nature of the different level of contributions paid in by employers and employees were noted in the report and Members wondered how much time had to be spent checking the accuracy of details received from the Fund's employers, whether this affected the timeliness of pension figures being provided to individuals and if this caused additional problems.

It was stated that checks were put in place to ensure that data was correct and where errors were identified they were swiftly rectified. Every effort was made to ensure figures provided to individuals were correct. It was noted that there had been some issues with the software used by the Pensions Administration Team in calculating career average re-valued earnings (CARE) benefits. It was noted that this was a national issue and not one just limited to the North Yorkshire Pension Fund. It was noted that the Pensions Regulator was aware that Pension Funds were not in full compliance with the Regulations as a result, but was providing some lee-way to Funds to allow them time to address the situation. Members considered that issues such as breaches of the Regulations were within the Pension Board's remit and would be interested to see this matter addressed.

- ◆ A Member noted that Mazars, an accounting body, was doing some work in relation to the LGPS CARE. Officers stated that they were unaware of this position and it was suggested, therefore, that clarification of this matter be sought with the Treasurer for the Pension Fund and Members be contacted, via e-mail, as to the position in respect of this.
- ◆ It was noted that, in terms of the software, there were only a small number of suppliers that provided this, and each was being affected by similar problems. The Chairman stated that he would ensure that information in relation to this matter was fed into the Pension Board for future meetings.

#### **Resolved -**

That the details contained within the North Yorkshire Pension Fund Annual Report 2014/15 and the Auditor's report on the Pension Fund at Audit be noted and the issues highlighted be subject to further consideration at future meetings.

### **17. Observations from the Pension Fund Committee Meeting held on 17 September 2015**

The Chairman provided an oral report in relation to his attendance at the Pension Fund Committee held on 17 September 2015 and outlined the following observations:-

- ◆ The agenda for the meeting was relatively short.
- ◆ Employer issues - the transfer of schools to academy status, with each one becoming an employer and the knock-on effect that this had for the administration of the North Yorkshire Pension Fund.

A Board Member considered that some of the strategies implemented by employer organisations had seen a knock-on effect for the Pension Fund, which had not been taken into consideration at the time of implementation.

He noted, for example, the imposition of two days unpaid leave for North Yorkshire County Council staff. He emphasised that issues such as this must have resulted in additional work for the Pensions Administration Team, which had not been captured and had been at a cost to the Fund. He considered that greater care should be taken when implementing such measures to ensure that extra costs were not being unnecessarily incurred. It was emphasised that the development of academies was another example of this. It was suggested, in response, that it would be appropriate for the Board to consider policy items coming forward and the potential effect that they could have on the Pension Fund Administration. It was suggested, therefore, that this issue could be put into the work plan for the Pension Board, with a view to this being a specific project, going forward.

- ◆ The Chairman stated that the Pension Fund Committee had also considered the budget statistics up to 30 June 2015, the performance of the various Fund Managers and the Fund's investment portfolio and he had provided a verbal update relating to the inaugural meeting of the Pension Board.
- ◆ The main feature of the meeting had been the Bond Strategy Review and the Committee had agreed to amend the allocation to a Fund Manager in view of its consistent underperformance. A Board Member asked if the Committee were altering its Investment Strategy, and, if so, whether the Pension Board should look at that. It was noted that the review had maintained the mandate in terms of bond investments, in line with the Investment Strategy of the Fund, with the changes being made to identify appropriate Fund Managers, rather than change the investment strategy. Details of why the changes had been considered necessary were outlined.
- ◆ It was suggested that arrangements be made for Members of the Pension Board to meet with Investment Advisers to the Pension Fund Committee to discuss relevant issues and, to avoid duplication of their attendance, that this be arranged to follow a Pension Fund Committee meeting. It was stated that these arrangements could be put in place to follow a subsequent meeting of the Pension Fund Committee.
- ◆ It was noted that Members of the Pension Board could attend meetings of the Pension Fund Committee as observers but it would be helpful if contact could be made before the meeting advising that they would be attending.
- ◆ It was noted that the next meeting of the Pension Fund Committee would be on 26 November 2015 and it would be investigated as to whether it would be feasible to hold a meeting with the Investment Advisers following that meeting. The Chairman of the Pension Board would already be in attendance at that meeting.

#### **Resolved -**

That the report be noted and actions identified be undertaken accordingly.

### **18. Pension Board Training Programme**

Considered -

The report of Legal and Democratic Services providing an update on training activity to date and options for further training.

An Appendix to the report provided details of training that had been undertaken by Members of the Board previously and details of links to available training. It was requested that when training events were completed by Members that they inform Democratic Services who would then update the training register accordingly.

Details of training Members were about to undertake, had already undertaken, and would like to participate in were provided.

It was noted that the North Yorkshire Pension Fund's Independent Professional Observer, Peter Scales, had indicated that he would be willing to provide a training event to Members of the Pension Board, following their request at the previous meeting. It was suggested that this training session could be arranged to coincide with the next meeting of the Pension Board, scheduled for 14 January 2016. Members agreed that this was appropriate.

#### **Resolved -**

That the report be noted and the training session with Peter Scales be arranged for the date of the next meeting of the Pension Board on 14 January 2016.

### **19. Pension Board Work Plan**

Considered -

The report of Legal and Democratic Services identifying the areas of work to be covered by the Pension Board and requesting Members to agree a work plan.

The report provided a summary of the remits for Pension Boards published by the Local Government Pension Scheme Advisory Board as its guidance to the core functions of a Pension Board.

It was noted that, at the previous meeting, Members had been asked to propose a "top five" of issues to address and these were highlighted in bold in the work plan appended to the report.

The report highlighted a number of suggestions as to how to take the work plan forward and it was emphasised that this would need to be flexible so as to accommodate any items requiring urgent attention that may arise from time to time. It was noted that some issues would require more in-depth investigation than others and it may be appropriate for sub-groups to be developed to determine how certain issues should be addressed.

Members discussed a way forward for the work plan and a number of issues and points were raised including the following:-

- ◆ It was suggested that every effort should be made to avoid adding to the pressure currently being experienced by the Pensions Administration Team. It was noted that much of this was provided currently to the Pension Fund Committee and that the Pension Board would be able to extract large amounts of information from the papers provided to Members of the Committee.
- ◆ It was considered appropriate that Members of the Pension Board could identify issues from the work plan that they may wish to undertake as specific projects, and provide a lead for developing a scope for that project. It was



noted that some of the issues would require more involvement from Members than others.

- ◆ An example of a project was given as customer service, which a Member of the Board could lead on and set out the scope for what they were seeking from that particular project, outlining the aims, objectives and outcomes that were being sought. It was noted that the County Council was promoting one page plans and it was anticipated that something such as this could be developed for projects undertaken by the Pension Board setting out what they anticipated to achieve.
- ◆ Members asked whether the work plan was in line with Government expectations for Pension Boards. It was noted that details in the work plan were based on the guidance published in respect of Pension Boards. It was noted that there were no priorities given to the issues within that guidance, just lists of issues that could be considered. It was suggested that as the Pension Board gained in experience the remit would inevitably become more focused.
- ◆ Members considered that some of the issues identified in the work plan would require more involvement from the Pension Board than others. It was noted that some issues could be dealt with on an annual basis or an even longer timeframe than that, whereas others, would require updates on a more regular basis. Some issues would also need a project based involvement, as had been identified earlier. It was considered appropriate, therefore, that the details contained within the work plan should be taken away for consideration to determine the timeframes for how these would be addressed by the Pension Board and that possible items for project based work could be identified at that time.
- ◆ It was stated that the Pension Board would be required to produce an Annual Report and the timescales for that would need to be considered. It was noted that the details for the production of that report and its reporting mechanism were as yet to be determined and would be reported back to the Pension Board subsequently, when in place.
- ◆ Members considered it sensible that issues that were fed into the Pension Fund Committee and overlapped with the responsibilities of the Pension Board should be programmed into the work programme in such a way so as not to cause additional work to those producing the reports.
- ◆ A Member sought information in relation to compliance monitoring undertaken by the Pension Fund Committee. In response it was stated that the only formal compliance monitoring report was on governance arrangements, in the form of the Report of the Independent Observer. It was noted that the auditors, both internal and external, also provided reports which examined compliance.
- ◆ A Member noted that the Triennial Valuation would be taking place next year and sought information in relation to the procedure for that. The procedure was explained and it was noted that the expected timescale for the Valuation would see a final report being published by the Actuary around February/March 2017. The draft conclusions of the Valuation would be considered through the summer and autumn of 2016 prior to the final report being published.

- ◆ It was suggested that the Chairman and officers work together to provide dates for specific issues within the work programme to highlight when it would be most suitable for the Pension Board to consider them and the timescales for a rolling programme of monitoring. It was considered appropriate that the work programme could then be populated with dates, circulated to Members of the Pension Board to comment on and then taken to the next meeting of the Board for agreement.
- ◆ Members were asked to consider what issues they would like to have on the agenda for the next meeting. A Member stated her interest in undertaking a project in relation to the costs associated with the investments for the Pension Fund. Members suggested that whilst this was considered to be a worthwhile project, this issue may be more appropriate to undertake when the Pension Board had become more established. Members suggested that the Independent Observers report should be provided to the next meeting to consider compliance monitoring. The issue of training would again be on the agenda. It was also requested that the Pension Fund's Risk Register be provided for review by the Pension Board.

**Resolved -**

- (i) That the agenda for the meeting to be held in January 2016 be formulated from the issues highlighted above.
- (ii) That the Chairman and appropriate officers develop the work programme, circulate to Members of the Pension Board and re-submit to the next meeting for agreement.

**20. Date of Next Meeting**

**Resolved -**

That the next meeting of the Pension Board be held on Thursday 14 January 2016 at 10 am in County Hall, Northallerton.

The meeting concluded at 12.45 pm.

SL/JR