

## North Yorkshire County Council

### Pension Board

Minutes of the meeting of the Pension Board held on 14 January 2016 at County Hall, Northallerton commencing at 9.30 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 GMB).

**In attendance:-**

County Council Officers: Amanda Alderson, Tom Morrison and Josie O'Dowd.

NY Pension Fund Independent Professional Observer: Peter Scales.

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

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**21. Declarations of any Interests**

There were no interests to declare.

**22. Apologies for Absence**

There were no apologies for absence.

**23. Minutes**

**Resolved -**

That the Minutes of the meeting held on 1 October 2015, having been printed and circulated are taken as read, confirmed and signed by the Chairman as a correct record.

**24. Action Record**

Considered -

The action record noting the progress made on actions agreed at previous meetings.

The record was updated – as follows:

**01/10/15**  
**Minute No. 15 –Governance Issues**

**Resolution**

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.

**Comment**

Members will determine what constitutes a suitable settling in period before further consideration is given to the appointment/election process for the Board

**Completed**

Members will review this later in the year alongside overall performance. All appointed have a four year term of office barring resignation. A watching brief would be maintained on this issue and the parameters reviewed if the need arises.

**01/10/15**  
**Minute No. 18 – Training Programme**

**Resolution**

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

**Comment**

This has been arranged and Board Members have been submitting their training wishes to enable the session to be developed accordingly.

**Completed**

Peter Scales will facilitate the training session on 14 January 2016.

**01/10/15**  
**Minute No. 19 – Work Plan**

**Resolution**

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

**Comment**

The work plan populated with dates has been circulated to Members of the Pension Board to comment on and will be taken to the next meeting of the Board for agreement.

### **Completed**

This should be should be finalised after Peter Scales' presentation on 14 January 2016.

**01/10/15**

### **Minute No. 16 - North Yorkshire Pension Fund Annual Report 2014/15 and the Auditor's Report on the Pension Fund Audit**

#### **Issue raised**

That Mazars, an accounting firm, was doing some work in relation to the LGPS CARE. Clarification of this matter to be sought with the Treasurer for the Pension Fund and Members be contacted, via e-mail, as to the position in respect of this.

#### **Comment**

Mazars are not doing work in relation to the LGPS CARE – Members were contacted accordingly.

#### **Completed**

Yes

It was confirmed that following enquiries undertaken since the last meeting no evidence had been identified of Mazars' involvement with the Local Government Pension Scheme however it was noted that they are working with the NHS.

## **25. Public Questions or Statements**

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

## **26. Risk Register**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) presenting the North Yorkshire Pension Fund Risk Register for comments.

Introducing the report David Portlock, Independent Chairman, stated that the Board had requested to see the Risk Register at the last meeting, and he was pleased to welcome Tom Morrison, Head of Commercial and Investments, to the meeting to take Board Members through the Risk Register.

By way of introduction, Tom Morrison explained that the Risk Register is produced reflecting the red, amber, green ratings for services across the County Council. He acknowledged that there were some red risks, however he cautioned that this did not

necessarily indicate that the matter was of grave concern - often it was highlighting an issue to be addressed.

He highlighted the criteria set out at pages 24 and 25 which provided the context for the report. He advised that there was reasonable confidence in the investment strategy overall but noted that this did not rule out short term volatility. He advised that key risks had not worsened over recent years, this stability was a reflection of the positive management of assets despite difficult circumstances. He confirmed that the Pension Fund Committee formally consider the Risk Register annually in June or July and this is reviewed the following December or January. Risks of concern may be revisited at any time, but he noted that this had not been necessary in recent years.

Board Members made the following comments:

- ◆ Does the Register relate only to the investment strategy? It was confirmed that it covered broader issues across all aspects of the Fund.
- ◆ In response to a question regarding the solvency of the Pension Fund, Tom Morrison advised that it is difficult to measure the impact of the risk reduction measures to help stabilise solvency. He assured Board Members that action to maintain some control over solvency is regularly monitored. Officers regularly work with advisers to identify and manage solvency risks.
- ◆ The Risk Register was felt to be an essential tool for managing key risks, monitoring risk reduction actions and identifying fall back plans.
- ◆ The use of a consistent format for reviewing risks across the Council appears to work well.
- ◆ The formulaic approach applied to the calculation of risks was queried and the extent to which 'probability' impacts upon strategy. Tom Morrison advised that a model of formulae was used and this determines the ultimate rating.
- ◆ It was also noted that when officers are assessing the risks, this is necessarily a question of judgment. Again it was noted that officers speak regularly with advisers to the Pension Fund Committee to address the issues. There is also a formal review of the position annually, which provides the opportunity to consider any further risks which should be included in future. The Chairman stressed that Pension Board Members would in due course need to satisfy themselves that the process operates satisfactorily.
- ◆ A query was raised regarding the IT systems risk and whether this concerned the national software problem regarding assessing CARE. Tom Morrison advised that this risk was principally about a failure of North Yorkshire's IT systems. He confirmed that the 'rating' reflected the overall situation.
- ◆ Where a risk has been addressed, is there a presumption that the audit trail remains? Tom Morrison confirmed that this was the case, adding that details relating to other issues which do not make it into the headlines of the Risk Register are also retained.
- ◆ The inclusion of the Key Personnel risk was noted and also the absence of any reference to succession planning - this was felt to be an issue. Tom Morrison advised that this issue has been addressed in respect of his own

specialist position and Amanda Alderson was now shadowing him to improve resilience. It was also noted that reciprocal cover between Gary Fielding and Tom Morrison will ensure service continuity. It was noted that these arrangements were not presently formally recorded anywhere. It was suggested that business continuity plans should reflect these arrangements.

**Resolved -**

That comments and observations made are noted.

**27. Internal Audit Reports**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) presenting the Internal Audit reports on the North Yorkshire Pension Fund over the last three years for comments.

Members had the following comments:

- ◆ Concern was expressed at the Overall Audit Opinion of 'limited assurance' in respect of the Special Assignment (pension payments) audit in April 2014. Tom Morrison advised that systems had been put in place to improve the situation and subsequent reports showed increasing levels of assurance. Board Members asked how the Pension Fund Committee would follow this through to ensure there was validation of the improvement. Tom Morrison explained that data from 2013 had previously been tested, and based upon the results recommendations for change had been submitted to management. It was noted that as a result of this, the service had put steps in place to address the problems and Veritau have subsequently reviewed and reported on progress to the Pension Fund Committee. It was suggested that the Pension Fund Committee should be made aware of Unison's concerns regarding the quality of the evidence of improvement. Tom Morrison stated that Veritau will be carrying out another audit in 2016 They will sample data, arrive at an up to date opinion and report their findings to Management and the Pension Fund Committee.
- ◆ The difficulty is that the overpayments are outside the direct control of Pension Fund Officers, which was acknowledged, because prime responsibility lies with Employment Support Services. It is therefore a matter of broader concern not just for the Pension Fund Committee. Tom Morrison assured Members that there had been much closer working over the last year and that improvements were being made. He anticipated that further progress would be shown but there was still a way to go. The Chairman felt it was appropriate that both the Pension Fund Committee and Employment Support Services are made aware of the deep concerns articulated.
- ◆ A Board Member highlighted the information on pages 56 and 57 which detailed the overpayments and wondered if this would be reflected in the accounts. Tom Morrison advised that it was probably not significant enough to appear.
- ◆ A typographical error on page 34 was noted - a misprint in the year.

**Resolved -**

That comments and observations are noted.

## 28. LGPS Pooling Arrangements

The Chairman clarified that the Pension Fund Committee papers forwarded to Board Members contained a private and confidential Appendix. This Appendix contained details concerning other Pension Funds. The information was particularly sensitive and could compromise on-going discussions or have an undue influence upon them. It was hoped that the discussion at Pension Fund Committee the next day would clarify North Yorkshire's direction of travel. The Chairman advised that when the issue had originally been put on the agenda for today's meeting it had been envisaged that there would be a general discussion and then feedback provided at the meeting the next day. However in light of the following this was not now felt to be appropriate:

- ◆ The North Yorkshire Pension Fund Committee have to participate in the Pooling Arrangements.
- ◆ The expectation is that the investment strategy will change over time to respond to the requirement to invest in infrastructure.

In view of these circumstances the matter was consequently a *fait accompli* and so there appeared to be little benefit in having a detailed discussion ahead of the meeting the following day. It was noted that the consultation runs into February.

Members' commented as follows:-

- ◆ What is the decision making process for the Pooling Arrangements?
- ◆ The Pension Fund Committee loses quite a lot of control and will need to liaise closely with Government.

Tom Morrison explained that research was underway to look at the embryonic arrangements emerging around the country, all of which were showing a more collaborative approach. For North Yorkshire potential pool partners are East Riding, Cumbria and Surrey, all authorities would all have an equal say regarding decision making. The imperative for North Yorkshire is very much one fund, one vote. It was noted that if North Yorkshire is slow to embrace these proposed arrangements, the Government may decide this for North Yorkshire. Also once the Government sets thresholds for the size of pooled arrangements, it may prove difficult for North Yorkshire to join further down the line, hence the need to indicate by 19 February 2016 who North Yorkshire seeks to collaborate with. This will enable a consolidated response to Government and then the analysis of potential savings can follow. Tom Morrison accepted that whilst North Yorkshire can sign up "in principle", as discussions unfold changes will be inevitable - things will not be set in stone from the outset.

- ◆ A Member felt that the emphasis was all about getting investments right and concern was expressed that once the Government is playing a greater role in this and returns diminish in future, any solvency issues will still rest with North Yorkshire eg the risks around volatility. There was speculation that Pension Funds might ultimately find themselves investing in large infrastructure projects. The question was also raised, would Pension Boards endure under such a regime in the longer term?

- ◆ Conversely it could be argued that the need to monitor pooling arrangements and governance could strengthen the case for Pension Boards.
- ◆ A Member sought assurance that Fund Members' views would still be heard once investment decisions were being influenced by outside forces. Future investments may not be in Fund Members' best interests. What is the right of redress if things go wrong?
- ◆ There was discussion regarding the setting of the mandate for investment. Tom Morrison advised that the details were not known as yet. The Pension Fund Committee will retain responsibility for the investment strategy but he acknowledged it was hard to anticipate the arrangements for asset allocation. On the question of infrastructure investment he noted that this was encouraged but not prescribed.
- ◆ Concern was expressed that there could be compulsion to invest 25-50% in infrastructure in the longer term. Tom Morrison advised that without appropriate provision in legislation 'compulsion' would not be possible. He noted that DCLG state that it is unlikely that this route would be used. If necessary Pension Fund Committee Advisers would work alongside the Secretary of State - intervention would be the absolute last resort and was felt to be unlikely.

**29. Observations from the Pension Fund Committee meeting held on 26 November 2015**

Considered -

The Chairman provided an oral report in relation to his attendance at the Pension Fund Committee held on 26 November 2015 and shared the following observations:-

- ◆ A lengthy discussion occurred regarding the the procurement arrangements for the Pension Fund adviser and consultant contracts which are due to end in 2016.
- ◆ He had provided an overview of the Pension Board meeting of 1 October.
- ◆ Start of discussions regarding pooling arrangements.
- ◆ A confidential paper was considered regarding the bond strategy review and investment strategy.

It was noted that overall there was little arising from the meeting that the Pension Board will need to address. Tom Morrison noted that it had been agreed to commence the recruitment of the Manager to enable the Pension Fund Committee to continue to review the investment strategy on an on-going basis. It was confirmed that an OJEU notice had been posted the previous week relating to the procurement procedure and therefore due process is being followed.

**Resolved -**

That the report is noted.

### **30. Pension Board Work Plan**

Considered -

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

The Chairman recorded his thanks for the comments received on the draft Plan set out at page 65. It was noted that reviews of Internal Audit reports would be a standing item on every future agenda. Tom Morrison noted that there were a number of blanks left in the Plan and it was hoped that Pension Board Members would be in a position to complete this following the training from Peter Scales which was to be delivered immediately after the meeting.

Members commented as follows:-

- ◆ Access to any cost monitoring information received by the Pension Fund Committee was requested to aid understanding. Tom Morrison advised that the Pension Fund Committee do not receive cost information in real time as the Fund Advisers are remunerated on the basis of a percentage of the net return. He also noted that information was being prepared presently as a result of the current pooling discussions. It was noted that consultants were reluctant to share information regarding manager fees, stating that they are competitively priced, and Tom Morrison advised that they have offered to squeeze out further costs in return for a share of the saving. The Member enquiring had assumed that this information would be available but accepted this could be looked at later.
- ◆ There was interest in item 30, the Review of Training Log, but it was accepted that this may need to be considered later in light of present circumstances.
- ◆ There was a need to understand the contract and governance arrangements between the Pension Fund and the Pool Managers. Summer 2016 might be a good time to do this. Tom Morrison confirmed that as soon as more information was known it would be shared but stressed that this would take time. There was consensus that a watching brief was needed and that an update should be provided on developments at either the April or July meeting. Tom Morrison confirmed that the pooling arrangements need to be in place for investment in 2018.

**Resolved -**

That the draft Work Plan would be updated following the training session with Peter Scales.

The meeting concluded at 11.30 am.

JO'D