

## North Yorkshire County Council

### Pension Fund Committee

Minutes of the meeting held on 25 February 2016 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

County Councillors: John Weighell (Chairman), John Blackie, Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Roger Harrison-Topham, Patrick Mulligan and Helen Swiers.

Councillor Jim Clark - Local Government North Yorkshire and York.

Councillor Chris Steward - City of York Council.

David Portlock - Chair of the Pension Board.

There were three members of the public present.

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

**Declarations of Interest**

County Councillors Bernard Bateman MBE, Margaret-Ann de Courcey-Bayley, Patrick Mulligan and John Weighell; together with Councillor Jim Clark declared non-pecuniary interests in respect of them being members of the Pension Scheme.

**110. Minutes**

**Resolved -**

That the Minutes of the meeting held on 26 November 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record and the Minutes of the Special Meeting held on 15 January 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record, subject to the addition of Councillor Chris Steward (City of York Council) being added to the list of those present at that meeting.

**111. Public Questions or Statements**

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

**112. Member and Employer Issues**

Considered -

The report of the Treasurer providing Members with information relating to membership movements, performance and costs of benefits administration as well as related events and activity over the year to date as follows:-

- (a) Admission Agreements.

- (b) Membership analysis.
- (c) Annual Benefits Statement.
- (d) Administration performance.
- (e) Member training.
- (f) Meetings timetable.

In a discussion of the report the following issues and points were raised:-

- ◆ It was noted that the next Baillie Gifford Annual Seminar would be taking place on 26 October 2016 and places were available, but limited, for Members of the Committee to attend. Anyone wishing to attend should contact Tom Morrison.
- ◆ A Member raised concerns that a timetabled meeting of Pension Fund Committee Members, with Investment Managers, had been scheduled to take place in a political group room. In response it was noted that the rooms within the building were now designated as flexible workspace and, despite the naming of the rooms, could be utilised for multi-purpose events, including meetings. The issue was acknowledged, however, it was noted that the meeting referred to was not a formal meeting of the Committee.
- ◆ A Member noted the details relating to the movement in active membership, and, despite this still being on the increase year on year, it had reduced in relation to that reported six months ago and that had been attributed to an on-going data-cleansing exercise which was due to be completed in March 2016. He asked what that exercise was identifying. In response it was noted that a variety of issues had emerged from the data-cleansing exercise which provided a more accurate position in terms of active membership, as the backlog of cases was being cleared through this process. The Member asked, with the figures previously reported having been wrong whether this could have breached regulations in some way. In response it was noted that although the figures previously presented included some inaccuracies, they had been caveated with an appropriate comment and this did not represent a breach of regulations.

The Treasurer noted that this issue had been identified and reported to Members previously and the activity underway to resolve it was expected to be completed successfully.

- ◆ Noting that the target figure for the reduction on reliance on the Customer Helpline had been achieved exactly, a Member asked how that situation had come about. In response it was explained that, on this occasion, it was just coincidence that performance matched the target. The Member asked whether the statistics indicated that on-line contact was decreasing. In response it was stated that contact activity was variable and the reasons for the fall in on-line activity and rise in telephone activity would be investigated. It was noted that, at certain times of the year and in certain circumstances more telephone calls were expected. The Treasurer noted that the annual communications strategy document would address these issues and would be brought to a subsequent meeting.

A Member noted that she had tried to obtain details on-line and had been unable to do so and, therefore, had been required to telephone. In response

it was stated that the on-line system for Council Members was unavailable, therefore, the only access for them was via telephone.

A Member expressed strong support of the Pensions Administration Team, but was disappointed in the push towards on-line only access for Pension Fund information. He stated that he had recently objected to the move towards on-line only facilities at County Council and District Council levels, as he was aware that not everyone could be, or wanted to be, on-line. He emphasised the need for alternative communication systems to remain to ensure that those who wish to communicate in an alternative way were able to do so. In response it was emphasised that the option for telephone communication would remain and that written communication continued to be sent out to Pension Fund members when this was considered necessary. All written communication also provided details of telephone contact numbers. It was stated that the option for on-line access to information provided an out-of-hours service allowing people to access their details as and when they required.

- ◆ Some difficulties in obtaining all information, when someone had requested their personal details with regard to their potential pension benefits, when thinking of retiring, were outlined and it was noted that this could lead to frustration and negative comments filtering through with regards to the service provided. The Treasurer stated that communications were being undertaken with the various employers with a view to improving that situation.
- ◆ Clarification was provided in relation to the details regarding the implementation of Altair, which was the software for the Pensions Administration System. It was noted that the implementation of the new system had brought improved self-service facilities, however all existing users would be required to re-register their details.
- ◆ A Member expressed his concern regarding the length of time it was taking to obtain information for those wishing to obtain details, in respect of their pension benefits, when they were wishing to retire. A representative of Unison noted that this particular issue created a lot of concern for their members and a great deal of angst at what could be already a stressful time. It was asked that the Treasurer look at improving this matter as a matter of urgency.

#### **Resolved -**

That the contents of the report be noted and any action identified be undertaken accordingly.

#### **113. Budget/Statistics**

Considered -

The report of the Treasurer reporting on the following:-

- (a) The expenditure/income position to date for 2015/16.
- (b) The cash deployment of the Fund.
- (c) The proposed 2016/17 budget.

#### 2015/16 Forecast

The cash surplus for the year to 31 December 2015 was slightly higher than forecast by £1m. Pensions' payroll expenditure was less than forecast by £0.6m which was partially offset by retirement grant expenditure of £19.9m against the forecast of £19.5m. Contributions income of £86.5m represented a £0.8m positive variance to the budget. Early retirement income exceeded the forecast by £0.2m. The bulk of retirement activity had taken place in Quarter 1 with just £113k of the £2.5m income being received in the quarter to 31 December 2015. Transfer income for the period of £6.1m exceeded forecast by £0.8m while transfer expenditure was £0.6m less than the budget at £3.1m. Performance related management fees of £3.7m exceeded the forecast by £1.4m. These were based on an extended period of substantial and awarding winning out-performance. A full year forecast for performance related fees had been increased by £1.5m to £4.5m.

### Cash Deployment in 2015/16

Details of the cash deployment and rebalancing carried out during 2015/16 were provided. It was noted that December 2015 had seen equities slightly higher than they were at the moment.

### Proposed 2016/17 Budget

Details of the proposed budget were provided in Appendix 1 to the report.

The budget reflected the slightly higher expectations in relation to performance related fees and also the expected increase in active members through auto-enrolment. Cash flow was expected to remain positive for the period but it was acknowledged that this was slowing and strategies were being developed in response.

During discussion of the report the following issues and points were raised:-

- ◆ A Member asked whether a definable number of members were staying in the Pension Scheme following auto-enrolment. In response it was stated there was currently no specific monitoring, per employer, as to whether people opted out following auto-enrolment, therefore trends were difficult to determine. It was noted that these issues may be picked up through the payroll of employers, where those who had been auto-enrolled were requesting refunds following opting out and, therefore, details could be obtained through that method. It was asked whether the auto-enrolment was generating large costs for the Pension Fund Administration or employers. In response it was stated that employers faced an increase in costs through this, however, there had been no significant increase in costs to the Pension Fund Administration in respect of auto-enrolment.
- ◆ Issues relating to the cash flow position of the Fund were discussed and it was noted that more detailed information, in relation to that, would be considered during the forthcoming triennial valuation. Close monitoring would continue to be undertaken in terms of the falling cash flow position going forward. It was emphasised that it was not expected that the cash flow position would become negative during the forthcoming year.
- ◆ A Member noted that the custodian fees had been over budget for 2015/16 and requested a fuller breakdown in relation to those fees. It was stated that those details would be circulated to Members.
- ◆ A Member sought clarification as to the expected returns in relation to the proposed investment expenses of around £6.8m. In response it was noted that the position could fluctuate greatly through the year and details of the

performance from the expenditure were highlighted in later reports. It was noted that the Committee would be provided with regular updates as how investments were progressing, in relation to the fees paid at meetings throughout the year.

**Resolved -**

- (i) That the 2016/17 budget be approved.
- (ii) That the contents of the report be noted.

**114. Pension Board**

The Chair of the Pension Board provided a verbal update on the work of the Pension Board, highlighting the following:-

- ◆ A meeting of the Board had been held on 14 January 2016.
- ◆ The Board had considered the Risk Register for the Pension Fund and were provided with details as to how those risks were monitored. This was discussed by the Board as included the aspects of the Fund covered by the Risk Register, the management of solvency risks, the development of fall back plans, the need for the Board to satisfy themselves that the risk management process operated satisfactorily and the development of Business Continuity Plans to reflect developments that had taken place with regard to succession planning. In response to the issues raised the Treasurer noted that there were no immediate concerns. He stated that the Continuity Plans for the Pension Fund linked in with North Yorkshire County Council and their appropriate arrangements. He stated that he would provide further comment in relation to this matter at future meetings of the Committee and the Board.
- ◆ In terms of the risk reduction actions it was noted that these would be reviewed by officers of the Pension Fund and approved by the Pension Fund Committee. It was noted that issues relating to risk were dealt with by the Risk Team within the Council and were not usually referred to Internal Audit.
- ◆ The Board considered some recent Internal Audit reports on the North Yorkshire Pension Fund and it was considered that overall, there were good systems in place for the Pension Fund. It had been noted that the audit opinion of "limited assurance" in respect of one special assignment (pension payments) had caused some concern but that steps had been put in place to address those issues, with a review undertaken by the Internal Audit team and resolved to Internal Audit's satisfaction.
- ◆ The other major issue discussed at the Pension Board meeting had been the potential for LGPS pooling arrangements, and the Chairman noted that the meeting of the Board took place before the special meeting of the Pension Fund Committee to discuss this matter.
- ◆ The latest draft of the Board's Work Plan had been agreed and details would be circulated to Members of the Pension Fund Committee shortly.
- ◆ Following the meeting a training session was undertaken by Peter Scales, the Independent Observer for the North Yorkshire Pension Fund.

A Member of the Committee asked if it would be possible to provide a written report from the Pension Board for future meetings as he considered this would make it easier for the Committee to take account of issues raised by the Pension Board. The Chairman of the Pension Board acknowledged the issue raised but emphasised that he was attempting to ensure that there was no duplication of effort for the officers supporting both Committee and Board, but would consider providing a written summary for future meetings.

**Resolved -**

That the report be noted.

**115. Performance of the Fund's Portfolio**

Considered -

The report of the Treasurer providing details of the investment performance of the overall Fund and of the individual Fund Managers for the quarter to 31 December 2015.

The report highlighted the following issues:-

- ◆ The performance of the Fund.
- ◆ Individual Fund Managers performance.
- ◆ Risk indicators.
- ◆ Solvency position.
- ◆ Rebalancing.
- ◆ Proxy voting.

The Investment Adviser and Investment Consultants had provided separate reports. Members undertook a detailed discussion with the Investment Adviser, the Investment Consultants, and the Treasurer, in relation to their reports, with the following issues been highlighted:-

- ◆ There had been an excellent performance by Fund Managers over the previous 12 months which have resulted in substantial returns, resulting in savings for the council tax payer.
- ◆ Global markets were causing concern at the current time.
- ◆ There is a period of uncertainty in respect of the forthcoming referendum on the UK remaining part of the EU and the possible knock-on effect of an exit.
- ◆ Details were provided as to the use of "tracking errors" in terms of Fund Managers actual returns.
- ◆ Although the solvency position shown in the report had indicated a 5% increase on the previous figure it was noted that recent market fluctuations would have seen solvency reduce.

- ◆ It was noted that there was unlikely to be a detrimental effect on stocks and shares in respect of the merger between the London and German Stock Exchanges.
- ◆ A detailed discussion took place in relation to the performance of Standard Life in contrast to that of Baillie Gifford. There was a full and frank discussion on this matter and on the conflicting positions of the Investment Adviser and Investment Consultants in respect of the performance of Standard Life. Comparisons were made to the performance of other Fund Managers and performances against the various benchmarks. Members warned against taking a short term view in terms of investment strategies but noted the issues raised and considered it appropriate that further detailed consideration, taking account of investments over a number of years, be undertaken at later meetings to determine how best to move forward.
- ◆ Members noted that pooling arrangements would be a factor going forward in terms of the investment strategy, however, it was emphasised that decisions on the investment strategy should not be delayed due to this.
- ◆ The Treasurer stated that he, Pensions Officers and Investment Advisers would consider issues relating to the investment strategy and would advise Members accordingly prior to the next meeting of the Pension Fund Committee.

**Resolved -**

- (i) That the report be noted.
- (ii) That arrangements be made for an investment strategy workshop to be held in the near future.

**116. LGPS Pooling Arrangements**

Considered -

The report of the Treasurer updating Members on the consultation on pooling arrangements for the LGPS.

The report updated Members on the work that had been carried out since the special Pension Fund Committee meeting on 15 January 2016 where a decision was made to join the Border to Coast Pension Partnership (BCPP). In line with Members' views, a response to the consultation was drafted from the North Yorkshire Pension Fund together with a response from the Pool. Responses were discussed and agreed by officers, the Treasurer, the Chairman and Vice-Chairman on 12 February 2016 and were circulated ahead of the meeting.

The responses demonstrated a commitment to pooling and a description of progress towards formalising arrangements, however, no formal decisions had been made at this stage. A more detailed response would be required by the second deadline of 15 July 2016.

Baillie Gifford will be providing Members with an update on national pooling arrangements on Friday 26 February 2016.

A detailed discussion of the issue was undertaken between Members, the Treasurer, the Investment Adviser and the Investment Consultants and the following issues and points were raised:-

- ◆ The size and details of the pools and Funds were starting to come together, with every Fund having made a decision on which pool it wished to be associated with, but it was emphasised that this could change.
- ◆ Clarification was provided as to the partners in the BCPP arrangement.
- ◆ Decisions would have to be made in due course as to the administrative arrangements for the pool.
- ◆ A Member raised concerns that views at the meeting held on 15 January 2016 had not been considered, as he had not been able to contribute to the final consultation submission, and would like to have made comments in relation to whether the pooling arrangements would create efficiencies for NYPF and did not believe a “one size fits all” approach to this matter was satisfactory. He considered that it was inappropriate that the opportunity to make such comments had not been available. The Member also raised concerns regarding there not having been sufficient details regarding the performance of the other Local Government Pension Funds that North Yorkshire was aiming to pool with, and considered that the process had been rushed.

The Chairman acknowledged the issues raised by the Member and stated that there had been a level of pragmatism in the arrangements that had been formed and noted that he too had not been satisfied with the speed of the arrangements that had to be made. However, he emphasised that unless this had happened within the timeframe, North Yorkshire Pension Fund may not have been able to secure its position in a pool. He also emphasised that this had to be done as required by Government. He noted that although the North Yorkshire Pension Fund had been the top performer for the previous five years, this had not always been the case, and prior to that, the NYPF had not been seen as a leading LGPS Fund. He emphasised that the North Yorkshire Pension Fund had been put in a position where it had to accept pooling arrangements and he did not feel in a position to resist that.

The Member accepted that the pooling arrangements had to be made but emphasised that he would like to have seen comments made in the consultation response about the North Yorkshire Pension Fund being a highly successful Fund and on the advantages of maintaining the existing system.

A member of the Pension Board commented that a response had been made to the consultation, from the Unson representatives, challenging the requirement to undertake pooling arrangements and had outlined concerns raised by members of the Pension Scheme that had been submitted to Unison.

The Treasurer stated that he had discussed the pooling matter with the Member who had raised concerns. He noted that the Government’s representatives had been surprised as to how well the LGPS Funds had come together in terms of developing pooling arrangements and considered that this had placed the Funds in a stronger position going forward. He stated that there had been a need to undertake a pragmatic approach and not to be seen as obstructive, to ensure that NYPF was well placed to negotiate its position later on.

- A Member asked whether suitable checks were being carried out to determine whether the other LGPS Funds outlined were appropriate to enter into pooling arrangements with, and what their stance had been in relation to the consultation. The Chairman explained that issues in relation to other

pooling authorities were being considered currently, however, he noted that the process had been undertaken somewhat speedily to ensure that the North Yorkshire Pension Fund was part of a relevant and appropriate pool. The Chairman also noted that every effort would be made to ensure that the North Yorkshire Pension Fund had as much autonomy as possible within the pooling arrangements.

The Fund's Independent Adviser noted that there were various different aspects to the pooling arrangements and not all pooling arrangements would be the same. She considered that the proposals for the pool that North Yorkshire Pension Fund was looking to enter into were balanced and also considered that the way in which the BCPP Funds had co-ordinated to create their pooling arrangement had put them ahead of the game in terms of Government expectations.

The Treasurer noted that the pooling arrangements were not clearly defined at the present time and those that had indicated that they wished to be in certain pools were at liberty to move to other pools if they so wished, before the arrangements were finalised. This would allow opportunity for the various Funds involved to undertake due diligence tests and also to gain reassurance that no single Fund's strategy was not going to have undue influence over the pooling arrangements.

The Treasurer stated that governance arrangements for the pooling arrangements were being drawn up and it was expected that those arrangements would allow each Pension Fund one vote in determining issues going forward. It was emphasised that the exact details of those governance arrangements were yet to be determined.

**Resolved -**

That the concerns and issues raised be acknowledged and the contents of the report be noted.

The meeting concluded at 12.45 pm.

SL/JR