

# North Yorkshire County Council

## Pension Fund Committee

Minutes of the meeting held on 19 May 2016 at County Hall, Northallerton commencing at 10.00 am.

**Present:-**

County Councillors: John Weighell (Chairman), John Blackie, Bernard Bateman MBE, Margaret-Ann de Coursey-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.

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

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**117. Exclusion of the Press and Public**

**Resolved –**

That the press and public be excluded from the meeting during consideration of Minute No. 121, below (in respect of Appendix 3) and Minute No. 125, in respect of Appendices 2, 3 and 4)

**118. Minutes**

**Resolved -**

That the Minutes of the meeting held on 25 February 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Matter Arising: Minute No. 112 Member and Employer Issues

A Member referred to the comment that concerns had been experienced by members of the Fund regarding the speed of processing certain ill health cases and the determination of pension benefits, and enquired if the situation had improved. The Treasurer advised that the cases in question were being assessed by the employers and their medical advisers, so individuals should pursue matters with their respective employers. When assessments have been completed, the Fund will be informed and will process the cases.

**119. Declarations of Interest**

County Councillors Bernard Bateman MBE, Margaret-Ann de Coursey-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.

The Independent Advisor declared an interest as a Non-Executive Director of the London CIV and Chair of its Investment Sub Committee.

## **120. Public Questions or Statements**

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

## **121. 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) Administration performance.
- (d) Class Actions
- (e) Member training.
- (f) Meetings timetable.

With regard to Class Actions, the Treasurer reported that many are pursued, focussing on those where there is a reasonable prospect of recovery. He also commented that an increasing proportion of actions take place outside of the US, where the process is significantly more labour intensive.

In response to a query from a Member, the Treasurer confirmed that the dates referred to in Appendix 5 of the report for meetings of the Pension Fund Committee and Investment Manager Meeting should be 15 and 16 September 2016, respectively.

**Resolved -**

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

## **122. 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 North Yorkshire Pension Fund staffing budget.

Looking at each of these in turn;

### 2015/16 Forecast

- The cash surplus for the year to 31 March 2016 of £6.5 million exceeded the budgeted figure by £1.1 million.
- Pensions payroll expenditure of £73.9 million was within £50k of the annual forecast, whilst Retirement Grant expenditure of £24.8 million was £1.2 million lower.
- Contributions income of £107.8 million represented a £0.1 million negative variance to the budget. Early retirement income exceeded the forecast by £40k.
- Transfer receipts of £7.1 million were £140k more than had been forecast, whilst outgoing payments of £4.4 million were lower than forecast by £580k.
- Transfer expenditure increased substantially in March 2016 as a result of the bulk payment of £502k to the London Pension Fund Authority.

### Cash Deployment in 2015/16

- Details of the cash deployment and rebalancing carried out during 2015/16 were provided. A sum of £3.8 million was available for rebalancing as a result.

### North Yorkshire Pension Fund staffing budget

- The cost of NYCC staff required to administer the fund, including overheads was met by the Fund.

The Treasurer advised Members that the work undertaken by the Pensions Administration Team was being managed within the current budget, which has periodically been adjusted to meet changing needs. Additional staff may be required assuming the Government's academisation programme goes ahead, however at this stage the pace of conversions is unclear. Members were, at this stage, asked to note the potential increase in the budget.

In addition, the Funds investment and accounting arrangements have become more complex and there is significant additional work for the Finance Team arising from the Local Government Pension Scheme pooling arrangements, requiring a revision to the budget for this team. The Treasurer stressed that the revision was to ensure the true cost of the work undertaken was met by the Fund.

In response to a question from a Member, the Treasurer confirmed that some investments would sit outside of the LGPS pools where it made economic sense.

A Member commented on the excellence of the Finance Team, which he felt was becoming stretched.

The Chairman stated that the amount of work on the financial side of the Fund was likely to be enormous over the next two years.

A Member queried why a request for additional budget would not take effect until 2017/2018 when some of the additional work was already happening now. The Treasurer suggested that the budget be allowed to overspend in 2016/17 rather than revise it.

**Resolved -**

That an increase of £123k in the staffing budget for Finance Team costs, effective from April 2017, be approved.

**123. Pension Board**

The draft Minutes of the meeting held on 14 April 2016 and the Board's Work Programme had been circulated with the Agenda papers for information.

The Chair of the Pension Board advised that the main topic of discussion had been pooling arrangements for the Local Government Pension Scheme.

**Resolved -**

That the Minutes of the meeting of the Pension Board on 14 April 2016 and the Board's Work Programme be noted.

**124. 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 March 2016.

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.

The Investment Advisor made the following comments:-

- Baillie Gifford now managed approximately 30% of the Fund's portfolio. This was quite a high proportion and something that the Committee needed to be aware of.
- Markets were largely being contracted as a result of intervention by central banks.

A Member referred to the impact of the Referendum on Britain's Membership of the European Union and asked if discussions were held with Fund Managers about their strategy in this regard. The Treasurer advised that this could be picked up at a meeting with Fund Managers scheduled for 20 May 2016.

The Investment Consultant highlighted the following:-

- Bonds were at a peak and, in the short term, could fall.

- Equities were showing no significant growth.
- Property was performing well.
- He was happy with the shape of the portfolio, which remained robust.
- In terms of the referendum referred to above, we were starting to see some currency depreciation, which was unsurprising. This was double-edged, in that it benefited the Fund's equity investments. Generally, any uncertainty affects the confidence of the markets.
- There may be less demand for gilts. If there was deflation, gilts would rise in value so, again, the effect was double-edged.

The Independent Advisor said she had concerns about the impact of the referendum in that, in the short term, the wheels tend to grind to a halt and this distorted markets for investment.

A Member pointed out that in paragraph 7.1 of the Treasurer's report, the reference to rebalancing should read December 2015 and asked if the Committee should be concerned about the 6% decrease in the solvency rate. The Independent Advisor responded that Members were right to be concerned, but this issue was not within the Fund's control as it was largely driven by liability valuations. The expectation was that interest rates would eventually increase, which would help the funding position.

Members noted that the performance of Dodge Cox and Standard Life was below expectations, currently. Separate discussions would be held with these companies.

**Resolved -**

That the investment performance of the Fund for the first quarter report ending 31 March 2016 be noted.

**125. LGPS Pooling Arrangements**

Considered -

The report of the Treasurer which:-

- updated Members on progress towards the Government's announced intention to pool the assets of Local Government Pension Scheme funds; and
- sought their agreement to adopt the proposed governance arrangements for the thirteen members of the Border to Coast Pensions Partnership.

The Chairman advised that he had attended an initial meeting about the proposals on 15 April 2016. A second meeting, scheduled for 13 May 2016, had been cancelled and Councillor Harrison-Topham would be attending the next meeting on 6 June 2016 on behalf of the Chairman.

Members expressed some disquiet at the fact that the pooling of assets was being imposed. On balance, however, it was felt that, given the reality of the situation, every effort be made to push on with the arrangements and make them successful.

General Comments/Questions

- Whoever the Manager is will need to be a regulated entity, as the Fund will be giving investment instructions to the entity.

- A significant amount of responsibility passes to the new officer group.
- There is a need to be mindful of potential conflicts of interest. It is only when things go wrong that governance arrangements are really tested.
- Set up costs appear high. The Treasurer clarified that it is not an aspiration to spend all of this amount.
- What is the timescale for transition of funds? The Treasurer advised that the timetable for the transition of funds was from April 2018 but otherwise yet to be determined.
- Rules of engagement are required to give clarity as to how decisions are to be made.

#### Appendix 2

- Paragraph 3.3, regarding selection and appointment of external managers: Will the Pension Fund have any part to play in this? The Treasurer clarified that involvement would not be direct but, as one of the constituent organisations, this Pension Fund would contribute to determining the process/apparatus for appointments.
- Paragraphs 3.4, 3.5 and 14.2 (and anywhere else it may appear): a definition of fiduciary duty should be given.
- Paragraph 3.6: Who will make a judgement on whether it is cost effective to implement asset allocation strategy decisions?
- Paragraph 9.2: The Fund fully support the aim that decision taking will be by consensus, wherever possible.
- Paragraph 11.1, Quorum: Why is it stated that 8 out of 13 voting Members must be in favour of a written resolution in order for it to be passed, when 7 would suffice as a majority? The Treasurer clarified it is not certain whether there will be 12 or 13 Members at this stage. There is some discussion as to whether or not to have a simple majority.
- Paragraph 14.2, Transition Costs: Concern expressed as to the level of these costs. Also, do the costs refer to purchase and sale, or just purchase? The Treasurer clarified that it is the former.
- Paragraph 15.3: Adherence to local government personnel practices could be limiting. With, for example, the appointment of a Fund Manager, there is a balance to be found between avoiding being charged a disproportionately high amount and the reality that there are not many individuals who have experience of managing pools of this size.

#### Appendix 3

- In the table under paragraph 4.1, Membership, "Vice Chair" should be included, particularly as this role is referred to at paragraphs 7.1 and 7.3.
- Is there a guarantee that the Chair and Vice Chair will be from different authorities? The Treasurer clarified that there will be such a guarantee.

#### Appendix 4

- Paragraph 1.4: On delegation arrangements, the wording is that officers will *work closely with* the Member Steering Group, rather than *take directions from* the

Member Steering Group. The latter would be the norm. The Treasurer clarified that this is the intention e.g. that Members will decide.

**Resolved –**

That approval be given to the Memorandum of Understanding.

**NOTE: Councillor Blackie wished it to be recorded that he voted against the resolution.**

**126. Private Debt Manager Search**

Considered –

The report of the Treasurer updating Members on the process of appointing a private debt manager.

In response to a question from a Member, the Treasurer confirmed that the role would be in relation to illiquid investments.

The Treasurer stated that all Members of the Committee were welcome to be on the Appointment Panel but, pragmatically, this would be unwieldy. Also, Members wishing to be on the Panel should be aware that they would need to be involved for the duration of the process.

**Resolved –**

That any Member wishing to be on the Appointment Panel advise the Treasurer of this by 27 May 2016.

The meeting concluded at 12.55 pm.

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