

North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 6 October 2016 at County Hall, Northallerton commencing at 10 am.

Present:-

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:

County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York) and Phil MacDonald (University of Hull).

Scheme Members:

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

In attendance:-

County Council Officers: Anna Binks, Tom Morrison, Jo Wade and Josie O'Dowd.

Copies of all documents considered are in the Minute Book

54. Apologies for Absence

Louise Branford-White (Hambleton District Council).

55(a) Minutes

Resolved -

That the Minutes of the meeting held on 14 July 2016, having been printed and circulated, are taken as read and are confirmed and signed by the Chairman as a correct record.

55(b) Action Record

Considered -

The Action Record noting the progress made on actions agreed at previous meetings.

It was agreed that once items have been reported as complete they will subsequently be deleted from the Action Record. Josie O'Dowd was asked to check the item at page 20.

Resolved -

That the suggestion, detailed above, be implemented regarding the on-going management of the Action Record and the updates are noted.

56. Declarations of Interest

It was clarified that Members of the Pension Board were not required to disclose their membership of the Pension Scheme, as defined in the regulations relating to Pension Boards.

57. Public Questions or Statements

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

58. Draft Minutes of the Pension Fund Committee meeting held on 15 September 2016

The Chairman David Portlock reported on the Minutes of the Pension Fund Committee of 15 September 2016 and on issues raised at that meeting. He recorded his thanks to Ruth Gladstone of Democratic Services for turning around the Minutes of Pension Fund Committee in a very short space of time, to enable them to be tabled here.

- ◆ A Member queried why £65m was being invested in property, taking the funding from elsewhere. Tom Morrison explained that the decision had been taken pre-Brexit and he noted that the recent falls in the value of the Fund's property investment is reflective of a change in valuation methodology and not an underlying fall in the property values themselves. He advised that post-Brexit these temporary arrangements had been reviewed by three Fund Managers. The risks were felt to have subsided and property values had remained flat since Brexit. Regarding equity investments, the market has performed surprisingly well post-Brexit with +10 to +15% being added to overseas equity valuations due to currency changes. The Fund was valued at £2.4bn before Brexit and has risen to £2.7bn.
- ◆ A Member speculated about the potentially diminishing role of the Pension Fund Committee once pooling arrangements are in place. It was acknowledged that part of the role of the Committee would transfer to the pool, in relation to manager hiring, monitoring and firing. Asset allocation decisions would however remain with the Committee.
- ◆ It was noted that there is no pension member representation on the Governance Board of the pool and this was felt to be a concern.

The Chairman advised that Audit Committee had the previous week approved the Fund's Annual Report. Tom Morrison also provided updated on the Member Steering Group meeting which had taken place on 29 and 30 September 2016.

- ◆ The question was raised regarding training for Pension Fund Committee Members. Tom Morrison advised that there are no specific requirements for that Committee, and requirements are much more prescriptive for Pension Board Members. It was suggested that perhaps a review of such training requirements could be a project for the Pension Board. It was noted that for

Trustees of Boards an evidential approach to training is required. It was recognised that many of the Members of the Pension Fund Committee are longstanding, many with more than 15 years' service and so they have a great deal of experience. It was acknowledged that whilst the present membership may be very knowledgeable this may not be the situation going forward, with the next County Council Elections on the horizon. It was suggested that the Election in May 2017 could provide a good opportunity to raise the profile of training particularly for new Members of the Pension Fund Committee.

Resolved -

That the feedback from the Pension Fund Committee meeting 15 September 2016 are noted.

59. Internal Audit Reports

Considered -

The report of Legal and Democratic Services providing the Pension Board with an update on internal audit activity.

The Chairman David Portlock referred to his email to the Head of Internal Audit querying the delay with the Quarter 2 report. He advised that two reports were being finalised and others were to be completed later in the year. It was noted that there was no specific date quoted for these items. Tom Morrison advised that he had received an indication from Internal Audit regarding timings, but noted that these reports do not automatically come to Committee unless problems are highlighted. He explained that where there is a high degree of assurance, Pension Fund Committee do not always spend time considering the report. He confirmed that the question of timing was down to Veritau juggling this work around their other priorities.

A Member commented that the practice of raising concerns by exception with a periodic general update seems reasonable. Another Member noted that reporting in January could be very late if a concern is being flagged. Tom Morrison hoped that the high levels of general assurance given, provided the required comfort to Members. Members reiterated that even a short overview would still be appreciated.

Resolved -

That the report is noted.

60. External Audit Report

Considered -

The report of Legal and Democratic Services asking the Board to consider the External Audit Report in relation to the audit of the Pension Fund's 2015/16 financial statement and to consider whether the governance documents in the Annual Report meet regulatory requirements and best practice standards.

The Chairman David Portlock advised that the County Council's financial accounts and statement were approved at Audit Committee on 29 September. Members raised the following points:

- ◆ A query regarding an entry at page 67 relating to audit fees - commenting that this issue should have been foreseen and therefore included at the

outset. Tom Morrison advised that in these circumstances other employers are recharged accordingly, however he acknowledged that prior agreement is usually sought.

- ◆ A Member felt that such action should only be undertaken with prior arrangements.
- ◆ A variance in reporting was also noted, as governance costs had come in lower than expected, despite including pooling related costs.
- ◆ A Member queried the reference to 'best practice principles' at paragraph 6.1(b) and wished to know if the assumption was correct. Responding Tom Morrison advised that the principles referred to had been established by the Scheme Advisory Board prior to the existence of the Pension Board.
- ◆ A Member reminded everyone that during the inaugural meeting, the Pension Board had defined its role.
- ◆ A Member queried whether Pension Boards are stakeholders as referred to in paragraph 3 and Tom Morrison confirmed that details should be included to keep the records up-to-date.

Resolved -

That the report and issues to be raised with officers on KPMG's Audit Report and the Fund's Annual Report are noted.

61. Review of Employer and Administering Authority Discretions

Considered -

The scoping report by Ben Drake, Member of the Pension Board, reviewing the exercise of employer and administering authority discretions.

Ben Drake summarised the background regarding employer and administering authority discretions in particular circumstances. He felt that it would be good practice if all the employers provided this information, as North Yorkshire County Council and the City of York Council already do. He felt it was appropriate to check that all employers hold this information on file and possibly to offer support to smaller employers via the model scheme approach. He felt that this would be beneficial as it would promote transparency.

A Member commented that as academy trusts come on stream this may be needed all the more. Their own discretions policy should be in existence. Ben Drake confirmed that other employers cannot be advised on what the discretion policy should be, however good practice in having a comprehensive document can be shared. Anna Binks referred to the changes occurring in April 2014 and noted that examples pre and post were already on file. She explained that a roadshow had been run for employers regarding the model policy and she confirmed that the County Council had always been based on the LGA template which represents best practice over and above the minimum requirements. She described the table format per discretion and the approach to information sharing, and instructions on how to complete the table whilst still leaving the final decisions up to employers. She felt that the County Council's format is very transparent and a good basis for others to work from. She reiterated that employers had been engaged with at every available opportunity to address this. She advised that pre 2014, 36 policies were in place covering all major employers, whilst post 2014, this has fallen to 17 which does not cover all the major employers. She advised that the outstanding policies had not been chased for some 18 months and she accepted that it is now timely to do so.

A Member asked whether any of the policies leave the North Yorkshire Pension Fund liable for the costs of any discretions, and Anna Binks replied that, in accordance with the regulations, it is the employer who must pay for such discretions as unreduced early retirements. Anna Binks stated that it was not onerous getting the information out there, the challenge was chasing the return of updated policies. She also advised that a dispute resolution process may need to be relied upon where there is no current policy in place. Ben Drake confirmed that this is an area of legal vulnerability, and a Member wished to know with whom the responsibility rests regarding agreement to allow discretion. Tom Morrison advised that the regulations allow discretions but that it is up to the employers to determine their policy. The Fund can only help facilitate this. Ben Drake went on to scope the proposed piece of work which would cover:

1. Clarifying the regulations.
2. The LGA guidance.
3. Best practice.
4. Where we are now.
5. Draft communications.
6. Circulate.
7. Chase returns.

The Chairman David Portlock sought the agreement of the Members and this was confirmed. A Member suggested using the 'efficiency' example to illustrate why this exercise is needed, e.g. flexible retirement, as different organisations could view the matter very differently.

Resolved -

That the report is noted.

62. LGPS Pooling - Update

Considered -

The report of Legal and Democratic Services updating on progress towards the Government's announced intention to pool the assets of LGPS Funds.

Tom Morrison reminded Members that the arrangements have to be in place by 1 April 2018, according to Government. He accepted that if no approval to the pooling proposal was received from Government in September the timetable is likely to slip; however, Government continue to push for April 2018. He stressed that Members and officers want to undertake this exercise properly, and if implementation is consequently delayed slightly, Government intervention seems unlikely. He explained that during the last week of September there had been meetings with Chairs of Pension Fund Committees and an update was expected shortly. He also advised of work being undertaken regarding potential advisers covering tax advice, appointing custodian, and IT system requirements. Discussions were ongoing with Eversheds and Deloittes regarding the legal issues. It had now been agreed that three sub groups would be established:

- ◆ one to consider the operating model, including the depositary and ICT requirements
- ◆ the second to consider the people aspects (including TUPE transfers), recruitment and the pay of senior executives

- ◆ the third to look at governance and monitoring, in particular the terms of reference for the Joint Committee, the shareholder agreement and the monitoring regime.

These groups would require dedicated time and Funds will be expected to volunteer resources to work on and oversee these work streams. It was noted that the costs are to be shared equally and this is expected to be in the region of £350,000 per Fund. Implementation costs are expected to be in the region of £4.2m overall. A suitable process is to be applied to ensure that each Council's Executive and Full Council approve arrangements. Concluding, he stressed that the approach to generating the best outcome for the 12 BCPP Funds will be key. Tom Morrison was expected to be involved in the governance work stream.

The Chairman was keen to understand the knock-on impact this would have on the North Yorkshire Pension Fund and Tom Morrison advised that Anna Binks and Amanda Alderson would provide cover for him.

Members commented as follows:

- ◆ Performance must be the first consideration and fees the second. Tom Morrison concurred with this view.
- ◆ A Member drew attention to the LGA Q&A in August and the official note circulated on this. He noted that the DCLG report speaks of FCA authorised body making investment decisions however each pool could have an advisory body at pool level. Tom Morrison spoke of a supervisory body with Chairs of each of the Pension Funds appointed to it. In this way the pool acts as the investment manager which is then held to account. He noted that there were neither employer nor employee representatives on the body. However DCLG has said that at pool level employer and employee representatives may be allowed, as there are non-voting representatives presently on the Pension Fund Committee. He noted that some pool participants will have more emphasis on Member representation than others, but it will be up to Members of the BCPP Funds to decide who is on the Joint Committee.
- ◆ A Member felt that this was important and did not wish to see pooled arrangements overlooking this issue. She stated that Pension Fund Committee Chairs are arguably employer representatives. Tom Morrison advised that the Chairs are not representing employers but rather Funds. He felt that the DCLG comments were opinions rather than mandatory requirements. Referring to the meeting held in June it was noted that building an FCA regulated entity was deemed the most appropriate route.
- ◆ A Member commented upon the sub group for TUPE etc and the £3.6m cost of servicing arrangements in the proposal. He felt that the absence of competition with other structures could significantly add to the cost of managing the arrangements. He cautioned against the risk of loading the structure with costs for no return, and he wondered if competition with others could help in this regard? Tom Morrison confirmed that the work streams were just starting and they need to be clear about what they were trying to achieve. Regarding Executive salaries research is underway regarding market rates and preparation are being made to find advisers to help with this. Local Government salaries were felt to be inappropriate and commercial rates were probably needed. Tom Morrison stressed that the intention was still to keep salaries at an appropriately sensible level.
- ◆ A Member commented that she was pleased to note that Tom Morrison had volunteered but sought assurance regarding backfill arrangements.

She hoped the costs would be reclaimed from the Pension Fund Committee for releasing him.

- ◆ A Member asked whether the Pension Fund had previously considered fiduciary management and Tom Morrison confirmed that it had not. A Member noted that this can bring quicker decision-making and it could perhaps ameliorate the Brexit impacts. Tom Morrison acknowledged the suggestion and indicated that the pooling proposals moved the decisions on manager appointments to the pool entity, but that's all. Another Member reiterated the need to be in a position to make quicker investment decisions in the changing financial climate.

Resolved -

That the report is noted.

63. Training

Considered -

The report of Legal and Democratic Services providing an update on Pension Board member training.

Josie O'Dowd was asked to recirculate the link to the training modules and Tom Morrison invited suggested topics for future training events. A Member suggested that AON Hewitt be invited to quote for the provision of a half day training following a future Pension Board meeting. It was suggested that this could cover liaison with and scrutiny of the Pension Fund Committee. Tom Morrison also noted that the Pension Fund Committee may wish to suggest issues for the Pension Board to consider. All were asked to review the list at page 187 in light of pooling and this should be brought back to the Pension Board in both January and April 2017.

Resolved -

- (a) That the Pensions Regulator modules which Members have still to complete is noted,
- (b) That Members continue to identify any appropriate training needs.
- (c) That the meetings dates for 2016/17 and 2017/18 as set out in the report are noted.

64. Work Plan

Considered -

The report of Legal and Democratic Services detailing the areas of planned work by the Pension Board.

Resolved -

That the Work Plan is noted.

65. Compliance with Publicity Regulations

Considered -

The verbal report of Anna Binks, Pensions Administration Team Manager, who advised that the North Yorkshire Pension Fund publicity is compliant in most areas. She commented that full membership details should be included on the NYCC website and also details of the appointment process to become a Pension Fund Board Member - a factual account is required. She also referred to the email she had circulated prior to the meeting and it was accepted that it is good practice to review these arrangements on a periodic basis.

Resolved -

That the verbal update is noted.

66. Any Other Urgent Business

The Chairman raised the question of insurance for the Pension Board members and it was confirmed that this is covered by North Yorkshire County Council's policies relating to Committee members.

The meeting concluded at 12.15 pm.

JO'D

DRAFT