

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 13 September 2013 at County Hall, Northallerton, commencing at 2.00 pm.

Present:-

County Councillors Roger Harrison-Topham (Vice-Chairman in the Chair), John Blackie, Sam Cross, Margaret-Ann de Courcey-Bayley, Patrick Mulligan, Helen Swiers and John Weighell.

The Chairman, County Councillor John Weighell, attended the meeting after it had commenced and agreed to allow the Vice-Chairman to continue in the Chair for the remainder of the meeting.

Councillor Jim Clark (Local Government North Yorkshire and York).

Copies of all documents considered are in the Minute Book

County Councillors Margaret-Ann de Courcey-Bayley, Sam Cross and John Weighell, together with Councillor Jim Clark, declared non-pecuniary interests in respect of them being Members of the Pension Scheme.

14. Minutes

Resolved –

That the Minutes of the Meeting held on 28 June 2013 and the Special Meeting held on 1 August 2013, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

15. Public Questions or Statements

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

16. Member and Employer Issues

Considered –

The report of the Treasurer on the following:-

- (a) Consultation Round Up.
- (b) Membership Analysis.
- (c) Administration Performance.
- (d) CIPFA Benchmarking Results 2012/13.
- (e) Latest Position re Admission Agreements.
- (f) Annual Benefits Statements.
- (g) Auto Enrolment.
- (h) Preparation for LGPS 2014.
- (i) NYPFOG.
- (j) Member Training.

(k) Meetings Timetable.

Updates were provided on the following:-

Consultation Round Up

The majority of consultations had now closed, however, the Call for Evidence consultation would close on 27 September 2013. Further discussion on this matter would take place later in the meeting.

Membership Analysis

It was noted that current membership numbers were up. The extent to which this was due to particular factors such as auto enrolment would be further examined in the next report to the Committee.

Administration Performance

It was noted that the major challenges in the first quarter had been an increase in phone queries predominantly relating to pensions' payroll issues, however, it was expected that the extension of self service would assist performance in due course.

Annual Benefits Statements were currently available on line for around 90% of Pension Fund members and it was expected that this would increase further shortly.

It was noted that sickness absence remained low within the Pensions Administration Team.

CIPFA Benchmarking Results 2012/13

Details of the benchmarking results were outlined and it was noted that North Yorkshire Pension Fund's Pensions Administration continued at a very competitive cost per member in comparison to other administration authorities and was improving year on year. High quality services were delivered at a low cost per member and NYPF was in the top quartile of achieving targets.

Admitted Bodies

Details were provided of the current position regarding admission agreements.

Auto Enrolment

Both North Yorkshire County Council and the City of York Council had reached their Auto Enrolment staging dates earlier in the year with early indications suggesting that the majority of employees who had been subject to auto enrolment tended not to subsequently opt out. This had helped in boosting membership of the Pension Scheme.

Member Training

It was noted that the Investment Strategy Review Workshop originally scheduled to take place on 31 October 2013 at 10.00 am had now been rescheduled and would be held on 25 October 2013 at 1pm in County Hall.

A Member congratulated the administration team on their year on year good performance.

It was asked whether the auto-enrolment initiative was proving costly for the administration of the Pension Fund. In response it was stated that it was not considered that the additional costs being generated were excessive in terms of administration, but it was noted that employers faced the additional contributions costs of more members being in the Pension Scheme. It was also noted that the additional membership generated additional cash for the North Yorkshire Pension Fund.

The Treasurer provided the background for the "Call for Evidence" consultation that was currently taking place and was due to end shortly. He provided details of what was required from the consultation process in terms of information to be provided by the North Yorkshire Pension Fund and he stated that a draft of the response would be circulated to Members of the Committee, for comment, before the final submission was submitted. He noted that the final response was required by the 27 September 2013. It was noted that much of the "Call for Evidence" consultation was aimed at considering the merits of establishing a smaller number of larger funds, with shared administration and/or investments. It was noted that the response from NYPF would be likely to indicate that the evidence was unclear as to whether this would achieve the Governments goals and that the focus should be on funds where efficiencies appear more achievable.

It was stated that the NYPF's Advisory Panel had stated that they would also like to see the response to the consultation before it was submitted. They had specifically considered that training qualification requirements should not be subject to local discretion and should follow national criteria in terms what was required of those serving on a Pension Fund Committee. The Treasurer noted the views of the Advisory Panel and stated that those would be considered. A Member also noted the views of the Panel but considered that the current membership of the Committee was already in a strong position in terms of experience and knowledge and to adhere to a national programme could result in time being wasted by those serving on the Committee in terms of having to undertake "one size fits all" training.

Resolved –

That the report and issues raised be noted.

17. Budget/Statistics

Considered –

The report of the Treasurer on the following issues:-

- (a) The expenditure/income position to date for 2013/14.
- (b) The cash deployment of the Fund.

The report outlined that the cash surplus to the year to 30 June 2013 (£1.7m) exceeded budget (£1.6m) by £0.1m. Benefits expenditure exceeded budget by £0.4m and contributions income was lower than forecast by £0.4m. This was offset as net transfer income receipts (£1.7m) exceeded forecast (£0.5m) by £1.2m. Other expenditure variances (£0.3m) made up the difference. It was noted that the forecast position was based on a three month period only and may therefore change significantly. The longer term cash flow position of the fund would be considered as information was forthcoming from the Triennial Valuation.

Cash generated in the year by the annual surplus, together with the opening balance, interest earned, and how that had been distributed, were outlined within the report.

It was noted that a further rebalancing which took place towards the quarter end was described in a later report.

Resolved –

That the report be noted.

18. Annual Report 2012/13

Considered –

The report of the Treasurer providing the North Yorkshire Pension Funds Annual Report and Accounts 2012/13 (ex-appendices) for the financial year 2012/13.

A copy of the Annual Report was appended to the report for information.

Details of the changes to the draft accounts arising from the audit process, further to the previous meeting of the Pension Fund Committee, were outlined and it was noted that the significant changes related to a reduction in the value of the unquoted private equity investment managed by YFM Equity Partners and a reallocation of distributions from the property investment managed by Hermes as investment income. These adjustments were relatively small and were classified as not material by the Fund's Auditor, Deloitte.

Deloitte stated that they expected to give an unmodified opinion on the Annual Report at the County Council's Audit Committee meeting on 26 September 2013.

The Annual Report would be available on the North Yorkshire Pension Fund website by the deadline for publication of 2012/13 Statement of Final Accounts, 30 September 2013.

Resolved –

- (i) That any comments on the Annual Report be provided to the Treasurer in advance of the Audit Committee meeting on 26 September 2013.

19. Performance of the Portfolio

Considered –

The report of the Treasurer providing the investment performance of the Fund and of the individual Fund Managers, for the Quarter to 30 June 2013 and the twelve months ending on that same date.

A document was also provided by BNY Melon Asset Servicing (MAS) giving a performance analysis of the Fund for the Quarter and year ending 30 June 2013.

The report highlighted the performance of the total Fund by asset class against the customised Fund benchmark. It also provided an analysis of the performance of each manager against the specific benchmark and the comparison of performance levels over time.

The Treasurer stated that the absolute overall return for the quarter (-0.2%) was above the customised benchmark for the Fund (-1.3%) by 1.1%. The 12 month absolute rolling return was +21%, 3.5% above the customised benchmark. The absolute and relative returns over the last four quarter ends were provided, together with fund managers' performance details.

Appendices were provided with the report to present a fuller picture of recent investment performance, with the following details provided:-

- Fund managed performance over the three years to 30 June 2013.
- Performance of North Yorkshire Pension Fund relative to other Local Government Pension Scheme Funds over the last ten years.
- Solvency position since the 2001 triennial valuation.
- Solvency graph.
- Details of rebalancing up to date.

Separate reports of the Investment Adviser and Investment Consultant were provided.

Other issues outlined within the report included overseas equities, UK equities, fixed income, property, diversified growth funds, risk indicators, solvency, rebalancing, investment strategy review and proxy voting.

Members discussed the performance of the investments with the Treasurer, the Independent Investment Adviser and the Investment Consultant and the following issues and points were highlighted:-

- The performance of the Standard Life GARS Fund.
- The major upturn in government bond yields, particularly the USA.
- The exposure of the Fund's investments to the yield increases.
- The need to continue to review the investment strategy as the potential for volatility in the markets still remained, particularly in relation to the difficulties faced by a number of Member states of the European Union.
- The recent changes to the Fund's investment strategy had reduced volatility a little, however the allocation to equities (65%) meant that exposure to those volatile markets was still significant.
- ECM's benchmark.
- Consideration of the investment strategy at the forthcoming workshop on 25 October 2013 at 1pm.

Resolved –

That the investment performance of the Fund for the Quarter and 12 months ending 30 June 2013 be noted.

20. Triennial Valuation Outcome

Representatives of the Actuary (Mercer) attended the meeting and discussed the 2013 Triennial Valuation with Members of the Committee.

The discussion highlighted the following issues:-

- A re-appraisal of the 2010 Triennial Valuation was provided.

- Since the 2010 Triennial Valuation the solvency position had improved from 67% to 71% although the relative increases in the investments and liabilities of the Fund resulted in an overall increase in the deficit in cash terms of £90m.
- Details of the impact of the rising deficit, the position in relation to that going forward, and how that was to be addressed were discussed.
- The impact of LGPS 2014 was outlined.
- Changes to the assumptions on CPI and salary inflation over the recovery period were described.
- Members raised concerns in respect of the figures provided and the potential affect that these could have on employer contribution requirements. It was suggested that the pay increase figure may have been set too high, bearing in mind the current austerity programme and that the inflation figure may have been set too low, bearing in mind current rates of inflation. A detailed explanation as to how the figures were arrived at and the reasoning behind those was provided by the Actuary.
- Details of the expected retirement age of Fund members were provided and it was noted that evidence suggested that members were retiring on average one year later than when the Valuation was carried in 2010.
- The Actuary highlighted the following issues in respect of the Valuation:-
 - It would not be appropriate for employers to reduce contributions at this time if they were in deficit.
 - It was anticipated that there would be an increase in contributions overall.
 - Liability levels may have been affected by the up-surge in the markets in recent months which would be taken into account when setting rates.
 - Every effort would be made to ensure that any rise in contributions for employers was at a manageable level.
- The timetable for the consultation on the Valuation was outlined with the initial results being sent out to employers in November and responses to a consultation required by the end of December. The contribution rates for all employers would be signed off by the Committee at the meeting on 20 February 2014.
- Details of how the high performance of the markets since March 2013 had affected the funding level were provided.
- A Member emphasised the difficulty that employers would face in finding additional contributions, particularly at the current time, when budgets were under pressure. It was suggested that it may be necessary to consider some room for negotiation on this to accommodate the already hard pressed employers. The Actuary emphasised that there would be negotiations with employers, however, it was stressed that employers would be required to recover their deficit positions over a period acceptable to NYPF. The Member emphasised that the position could change significantly in the future, as it had done recently, and asked if this would be taken into account. In response the

Actuary emphasised that the Valuation is based on the position as of the 31 March 2013 but subsequent events up to the signing off the Rates and Adjustment Certificate would be taken into account.

- A Member emphasised that any increase in contributions for public sector employers would impact on the council tax payer and suggested that where flexibility was available then this should be utilised and that other ways of reducing the deficit should also be investigated as part of the valuation process.
- It was emphasised that Members had to consider the issue from the North Yorkshire Pension Fund point of view rather than from their position as District or County Councillors. It was emphasised that the main aim of the Pension Fund was to ensure that it was managed in the most appropriate way including addressing the deficit.
- Clarification was provided regarding the current solvency position and how that had been taken into account in the valuation process.
- It was stated that further discussions on pay increases, inflation, gilt yields and their effect on contributions would be undertaken.

Resolved –

That the current position of the Triennial Valuation 2013 be noted along with the issues and points raised during the discussion.

The meeting concluded at 4.20 pm.

SL/ALJ