

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 7 July 2016 at County Hall, Northallerton commencing at 10.00 am.

Present:-

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

Councillor Jim Clark - Local Government North Yorkshire and York.

Councillor Susie Mercer - City of York Council (as substitute for Councillor Chris Steward).

David Portlock - Chair of the Pension Board.

Ben Drake – Pension Board Member and representing Unison.

Apologies - County Councillor Bernard Bateman MBE submitted his apologies.

Copies of all documents considered are in the Minute Book

127. Exclusion of the Press and Public

Resolved –

That the press and public be excluded from the meeting during consideration of Minute 133 (in respect of Appendix 1), Minute 134 and Minute 135 because of the likely disclosure of exempt information as defined in paragraphs 5 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information)(Variation) Order 2006.

128. Minutes

Resolved -

That the Minutes of the meeting held on 19 May 2016, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

Further to the issue raised under matters arising from those Minutes (Minute No. 118 Member and Employer Issues - Matters Arising) the Treasurer stated that the issue around the speed of processing certain ill health cases, and the determination of pension benefits, was being addressed and would be reported back to a subsequent meeting of the Pension Fund Committee.

129. Declarations of Interest

County Councillors 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.

130. Public Questions or Statements

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

131. Statement of Final Accounts 2015/16

Considered -

The report of the Treasurer requesting Members to approve the draft Statement of Final Accounts for the financial year 2015/16.

He noted that the draft Statement of Final Accounts for 2015/16 was attached to the report as an Appendix and that this fully complied with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom governing the preparation of the 2015/16 Financial Statements for Local Government Pension Scheme Funds. Any material amendments to the accounts arising from the external audit would be reported to the September Pension Fund Committee meeting.

The North Yorkshire Pension Fund Statement of Final Accounts would also be consolidated into the County Council's Statement of Accounts for approval by the Audit Committee and, once audited, these would be incorporated into the Pension Fund Annual Report which would be placed on the North Yorkshire Pension Fund website. The Annual Report would be submitted to Members at the September Pension Fund Committee meeting.

The following issues and points were raised:-

- ◆ Clarification was provided as to why teachers, Police and firefighters were not included within the North Yorkshire Pension Fund, although the back office functions were covered by the Fund.
- ◆ In terms of schools becoming academies it was noted that non-teachers would continue to be part of the North Yorkshire Pension Fund, and that academies are separate employers and their non-teaching staff would remain in the North Yorkshire Pension Fund.
- ◆ The Treasurer stated that he would obtain further details in relation to the cash holdings of the Fund in line with concerns raised by a Member that this amount would not be obtaining much interest at current levels.
- ◆ Details were provided in relation to the Yorkshire & Humber Equity Fund investment, in that it represented the residual value of a private equity investment made in in 2002.

Resolved -

That the draft Statement of Final Accounts 2015/16 be approved.

132. Governance Arrangements

Considered -

The report of the Treasurer seeking the Committee's approval of the Pension Fund Risk Register and highlighting that some documents would require approval in the September Pension Fund Committee meeting, with Members approval to the approach to the amendment of these documents being sought.

The Treasurer stated that the Regulations required that the final accounts, certain governance documents, and other specified information be included in the Annual Report. The Annual Report is audited in its entirety and its sections would be updated where necessary in advance of the audit. The completed Annual Report would be presented to the Pension Fund Committee on 15 September 2016 for recommendation for approval by Audit Committee which would meet on 29 September 2016.

The governance documents which form part of the Annual Report include:-

- ◆ Statement of Investment Principles.
- ◆ Governance Compliance Statement.
- ◆ Funding Strategy Statement.
- ◆ Communications Strategy Statement.

It was noted that due to the timing of the triennial valuation, and certain governance documents being replaced, approval would be required later than in previous years.

A description of each of the governance documents was provided within the report and a copy of the Risk Register (Appendix A - summary; Appendix B - detailed Risk Register) were appended to the reports. Details of the ranking of the risks were provided within the report.

Discussion of the report raised the following issues and points:-

- ◆ The report referred to the current governance arrangements for the Pension Fund which do not refer to pooling, and that pooling would be discussed later in the meeting. In relation to this a Member raised concerns that North Yorkshire pensioners may not be up to speed with the details of the pooling arrangements and, as the Communications Strategy formed part of the governance arrangements asked if this issue would be addressed within it. The Chairman noted that although pooling was of concern it would not change the terms and conditions of those receiving a pension from North Yorkshire Pension Fund, or for those paying into the Fund. The Member who raised the concerns acknowledged this issue, but emphasised the need to ensure that all who had an interest in the North Yorkshire Pension Fund were informed of developments for pooling and what that meant for the Fund. In response to further issues raised in relation to pooling, the Chairman stated that these would be addressed in the next item. The Treasurer emphasised that the Communications Strategy would be utilised to support activity aimed at informing stakeholders, along with updates in member newsletters.
- ◆ The Treasurer stated that, in respect of the anticipated regulations and their impact on the required governance documents, there was a process envisaged which required a meeting between officers and the Chairman and Vice-Chairman of the Pension Fund Committee, in advance of the September meeting. It would also be necessary, should Members agree, to delegate authority to officers to make any necessary minor changes to the documents, prior to them going to the September meeting as part of the Annual Report.
- ◆ This process was required as the Statement of Investment Principles was due to be replaced by the Investment Strategy Statement, with regulations expected any time. If the regulations were published in time, the delegation process described above would be utilised, otherwise the Statement of Investment Principles would remain in place.
- ◆ A Member asked whether the Statement of Investment Principles would be a significant document in terms of the pooling arrangements and asked about the

implications of not having the new regulations in place. In response it was noted that both the Statement of Investment Principles and the Investment Strategy Statement were suitable starting points for describing NYPF's strategy to the Pool, to be supplemented by more detailed descriptions of investment requirements. It was emphasised that the change from the SIP to the ISS would have no impact on NYPF's position in pooling arrangements.

- ◆ Clarification was provided as to the differences between the Funding Strategy Statement and the Statement of Investment Principles. It was noted that the Funding Strategy Statement was developed through the triennial valuation, which is ongoing, for approval by the Pension Fund Committee in early 2017. A draft will be circulated to the Committee towards the end of 2016.
- ◆ The Chair of the Pension Board reported that he had recently attended a conference for Pension Board members. The Pensions Regulator had stated that, following the creation of "Pools", Pension Fund Committees would retain at least 90% of their current responsibilities - for example, setting investment strategy, governance, administration, record keeping, communication with scheme members and employers. The Regulator was very clear that "Pooling" is about the implementation of a scheme's investment strategy, not the operation and management of individual schemes.
- ◆ A Member raised concerns regarding the pooling arrangements and the Pension Fund Committee not being able to choose its own Fund Managers in line with the Investment Strategy. He considered the pooling arrangements would diminish the control that the Pension Fund Committee currently had over this aspect of investments. He also suggested that not having the ability to speak directly to those Fund Managers would also dilute the knowledge that the Committee had on investments. Other Members of the Committee echoed those concerns.

The issues raised were acknowledged and the concerns accepted, and it was emphasised that PFC knowledge of investments and access to industry specialists including investment managers would be taken account of in the ongoing consideration of how pooling arrangements would operate in practice.

Members were requested to appraise the Risk Register which was provided as Appendices to the report and the following issues and points were raised:-

- ◆ A Member asked whether the risks associated with the exit from the EU were taken account of in the Risk Register. In response the Treasurer indicated that the impact on the Investment Strategy in terms of market fluctuations, currency fluctuations, and other economic issues was already described, without referring to specific events. A Member emphasised that it was not yet known what these risks would be until details of the break-away from the EU were much clearer. A Member noted that there were other issues such as employment rights, the employment of European nationals, etc. that could also have an impact on the Fund and that these should be taken account of when assessing the risks.
- ◆ A Member noted that there was no fall-back position included in the arrangements for pooling risk and asked why this was the case. In response it was stated that, as things stood, there was no alternative but to enter into pooling arrangements and, therefore, no fall-back position was currently available. Possible alternatives that could be considered would include moving pools or making representations to Government, but those issues would only be reflected if they were appropriate and feasible. In respect of this it was asked whether changes within Government or the Treasury could result in a

change in requirements. In response it was emphasised that there was always a possibility that this could be the case, however, at this moment that appeared remote. Members considered it appropriate that the matter continued to be discussed with appropriate Government officials to highlight the concerns raised in relation to the development of pooling arrangements.

- ◆ In terms of the Risk Register, going forward, Members highlighted issues that may not be under the control of the Pension Fund, such as the implications of leaving the EU and the lack of contact with Fund Managers because of pooling arrangements and the additional layers of governance between the PFC and the investment managers. It was considered that these were risks that would be difficult to maintain the current levels of control over. In response it was stated that the Risk Register would be updated as pooling arrangements progressed.
- ◆ It was emphasised that for the purposes of this meeting the Risk Register that was before Members, in terms of the current risks to the Pension Fund, was under consideration.

Resolved -

- (i) That the Risk Register, as detailed in Appendices A and B to the report, be approved.
- (ii) That agreement be given to the approach to approving governance documents at the September meeting as set out in paragraph 3.2 of the report.
- (iii) That authority be given to the delegation of authority, as outlined in paragraph 3.3 of the report, to make minor changes to governance documents where necessary.

133. Pooling Arrangements

(Appendix 1 to the report contained exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) Order 2006 and the Minutes reflect the confidential nature of that Appendix.)

Considered -

The report of the Treasurer updating Members on progress towards the Government's announced intention to pool the assets of LGPS Funds and to seek approval from Members for the Council to be signatory to the Border to Coast Pensions Partnership (BCPP) proposal aimed at addressing the Government's criteria for pooling.

The report provided the background to the establishment of the pool including the submission of the initial proposal and the deadline for the second more detailed proposal, which was 15 July 2016. The participants within the pool were highlighted, as were the expectations of the content for the detailed proposals, set by the Government.

Details of meetings held on 15 April, 6 June and 24 June 2016 involving elected member representatives from the BCPP were highlighted and it was noted that the Chairman and Vice-Chairman of the Pension Fund Committee had represented the Fund at those meetings. Officers had also met with representatives of HM Treasury, DCLG, GAD and the Cabinet Office to discuss the main issues described in the detailed proposal.

The draft proposal had been circulated to the Pension Fund Committee on 22 June 2016 and to Members of the Pension Board. The latest version of the document, which reflected the feedback of Chairs of Pension Fund Committees, was attached as Appendix 1 to the report.

The draft proposal included the Memorandum of Understanding which was approved by the Pension Fund Committee in May 2016.

Although there were 13 BCPP Funds, the Member Steering Group would comprise of 12 Funds, with the South Yorkshire Passenger Transport Fund having decided to be represented through the South Yorkshire Pension Fund.

To meet the 15 July 2016 Government deadline for submission the proposal had to be approved by all 13 Funds by the date. With regards to that Members were asked to approve the document, and comments that Members had on the proposal would inform subsequent developments of the pooling arrangements which would be worked up by officers and approved by the Member Steering Group.

An assessment of the additional costs and potential savings that pooling arrangements would bring to North Yorkshire Pension Fund was provided at Appendix 2 to the report. It was noted that this was based on the more prudent of two sets of assumptions, described as the “worst case” which had been applied to all BCPP Funds.

Based on those assumptions the North Yorkshire Pension Fund would see a net reduction in costs after six years from the expected time of commencement of pooling arrangements in April 2018.

Further to the initial report the following issues and points were raised:-

- ◆ The Vice-Chairman had circulated his comments, in respect of the meetings of the Steering Committee that he had attended, to Members of the Pension Fund Committee, which were welcomed. He had raised concerns in respect of the diminished opportunity for the Pension Fund Committee’s direct contact with Fund Managers and how the Investment Strategy, particular of the North Yorkshire Pension Fund, would be implemented through the pooling arrangements. He had also raised concerns regarding the effect of the arrangements on the solvency of the Fund in terms of the initial costs to establish the pool.
- ◆ The Chairman noted that there were examples of infrastructure investments undertaken by Pension Funds which had been beneficial to them in terms of returns and highlighted how economies of scale through pooling could potentially work for NYPF.
- ◆ A Member noted how collaboration, rather than pooling, could have been a potential way forward.
- ◆ A Member considered that the governance structure required for pooling made the arrangements far more complicated than at present, adding in the further layers of the Joint Committee and the Pool entity, and had some concerns regarding how those various layers would interact. Other Members also highlighted their concerns regarding the structure and the link to the Pension Fund Committee. In response it was stated that the PFC would be able to input into the development of the arrangements through the Chairman who would represent NYPF on the Joint Committee.
- ◆ A Member raised concerns that the Pension Fund Committee had been left with no option other than to enter into pooling arrangements and that the

structure that was being developed to undertake the process appeared to be much more costly than what was in place now, with few cost benefits in the short term. He did not believe that this represented a suitable approach within local government. He asked whether discussions with other Members of the pool had outlined any concerns in respect of the arrangements being put in place. He acknowledged the difficult position that Pension Fund Officers had been put in in terms of the short deadlines imposed by Government for the implementation of these arrangements. He suggested that concerns should continue to be outlined to Government, whilst continuing to participate in the process in view of the issues he outlined. In response the Chairman indicated that although there would be a new structure in place, part of that structure related to existing fund managers but that he too had concerns about creating additional tiers of governance.

- ◆ A Member raised concerns that the proposed pooling arrangements provided for little flexibility and considered that if they were to go wrong there would be a great deal of difficulty in withdrawing from the pool. It was noted that the draft arrangements for the management of the pool were set out in the Appendix to the report and provided some details of how issues, going forward, would potentially be managed.
- ◆ Concern was raised regarding the appointment of a Chief Executive for the pool with issues around the power afforded to that Chief Executive and the cost of employment. It was suggested that, with pools seeking at the same time to recruit an appropriate Chief Executive, it was likely to create unhelpful competition.
- ◆ It was noted that, at this stage, it had been difficult to gauge the concern of other Members representing BCPP funds around the issues raised by due to the limited number of meetings so far and their formal nature. However, it was expected that there would be opportunities to discuss these issues in due course.

The Chairman of the Pension Board asked when the governance arrangements would be place to enable the Pension Board to consider them. In response it was stated that it was expected that these would emerge between September and December 2016 as officers continued to work on them.

- ◆ A Member expressed concern regarding the process of the development of the pool, with Members agreeing to be part of a pool with no formal governance arrangements in place nor senior appointments having been made. He also considered that the accountability of the Pension Fund Committee would be diluted through these arrangements. A number of Members echoed those concerns. It was also suggested that the exit of Britain from the European Union had created instability in the markets and the economic stability of the country, in the short term, further heightened those concerns. In response the concerns expressed were acknowledged and it was emphasised that, going forward, the issues highlighted by Members would be discussed further within the pool and by Pension Fund Committees to ensure that, where possible, these were fully discussed and addressed. It was also noted that savings for the BCPP Funds were likely to accrue from the economies of scale, over time.

Resolved -

That approval be given to the BCPP proposal for asset pooling in the LGPS.

County Councillor John Blackie asked for his vote against the recommendation to be recorded.

134. Independent Adviser Procurement

The Treasurer provided an update in relation to the procurement process for the appointment of an Independent Adviser to the North Yorkshire Pension Fund.

It was noted that the current Independent Adviser had given notice that she would not wish to be considered in the forthcoming procurement exercise.

The views of Members were sought in relation to whether it was appropriate to continue with the procurement process in relation to the Independent Adviser or whether to continue with the Investment Consultant alone providing external advice to the Fund.

Members discussed the pros and cons of having the two sources of external advice, and considered that the arrangement with the Independent Adviser and the Investment Consultant providing advice was preferable. However, Members noted that the procurement process would be used to determine if a suitable Independent Adviser could be found, and if not, no appointment need be made.

Resolved -

That the procurement process for an Independent Adviser to the North Yorkshire Pension Fund continue as previously agreed.

135. Threadneedle Investment

The Treasurer provided a verbal report in relation to an investment opportunity that had arisen with Threadneedle, the amount that had been invested and how the funding for that investment had been obtained.

Resolved -

That the details provided be noted.

136. Other Business

Private Debt Manager Search

The Treasurer provided details of the ongoing process of appointing a Private Debt Manager. Interviews would be held on Friday 15 July 2016.

Resolved -

That this be noted.

The meeting concluded at 12.20 pm

SL/JR