

North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 14 July 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), Phil MacDonald (University of Hull) and Louise Branford-White (Hambleton District Council).

Scheme Members:

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

In attendance:-

County Council Officers: Amanda Alderson, Anna Binks, Steve Loach, Tom Morrison and Jo Wade.

Also present: Adam Nagy - work experience.

Copies of all documents considered are in the Minute Book

41. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of item 13 on the agenda on the grounds that it involved the likely disclosure of 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.

42. Apologies for Absence

There were no apologies for absence.

43(a) Minutes

Resolved -

That subject to an alteration to Minute No. 37 - LGPS Pooling - Update, page 9, second bullet point, second paragraph, penultimate sentence - remove "requirement"

after “would be no”, the Minutes be taken as read, confirmed and signed by the Chairman as a correct.

Arising from those Minutes a Member noted that issues around pooling arrangements, discussed at the previous meeting, had resulted in a recommendation that a further opportunity be provided to Members of the Pension Board to discuss the next response by the BCPP to those arrangements, prior to submission to Government. It was noted that the submission was due on 15 July, the day following this meeting, and, therefore, the recommendation had not been met. The Chairman acknowledged the issue raised, but noted that Pension Fund Officers had circulated the draft document to Pension Board Members and that some comments had been submitted in relation to that. He stated that the Pension Fund Committee had discussed the draft document a week earlier (7 July) and similar reservations had been expressed by Members of that Committee. He emphasised that, unfortunately, because of the tight deadlines involved, the draft document was not available to Members of the Pension Board to discuss until the date of this meeting. He stated that further discussion of the issue would take place later in the meeting.

43(b) Action Record

Considered -

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

It was suggested that where actions would be ongoing, that an update be provided within the complete section, indicating when the issue had been further discussed at a Pension Board meeting.

Resolved -

That the suggestion, detailed above, be incorporated into the Action Record and the updates be noted.

44. 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.

45. Public Questions or Statements

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

46. Internal Audit Reports

Considered -

The report of Legal and Democratic Services which provided an update on Internal Audit activity.

It was again reported that there had been no Internal Audit activity in relation to the Pension Fund since the last Pension Board meeting, with the 2015/16 reports expected shortly. It was expected that reports would be available for consideration at the next meeting of the Board. Officers noted that they had recently received an update report on one of the issues, in draft form, for their comments.

The Chairman and Members asked that their concerns over the delays to the report be brought to the attention of Internal Audit, with an expectation that the required reports were available for the next meeting of the Pension Board.

In terms of the report that had been circulated to officers it was noted that it was usual practice for issues to be discussed between officers, management and Internal Audit, before the report became public to determine whether any issues identified could easily be addressed.

It was emphasised that should any major issue arise, that was of significant concern, then both the Pension Fund Committee and Pension Board would be made aware of that immediately.

Resolved -

That the report, together with the comments made, be noted and that Internal Audit be made aware of those comments.

47. Review of the Risk Register

Considered -

The report of Legal and Democratic Services presenting the updated NYPF Risk Register to the Pension Board for comments. Details of the Risk Register had been presented to, and agreed, at the previous week's meeting of the Pension Fund Committee and details of how each risk was assessed were provided within the report.

It was noted that the latest review of the Risk Register had taken place in June 2016 and the updated version was attached as Appendix 1 to the report. There had been some minor amendments to the existing risks and one new risk had been added. Details of the ranking of those risks were provided within the report.

It was noted that the currently "red flagged" risks related to the fluctuating market conditions at present and were not of serious concern. The additional risk, referred to above, related to LGPS pooling and issues around the delivery of cost savings and performance improvements, the effect on the Fund's solvency and the potential for increased employer contribution rates. In relation to that risk it was noted that, currently, there was no fall-back position highlighted, as the pooling arrangements had been made mandatory by Central Government, and it was difficult to ascertain what other position could be adopted should these arrangements not be entered into.

Members of the Board highlighted the following issues and points in respect of the report:-

- ◆ It was noted that the Investment Strategy was monitored on an ongoing basis by the Pension Fund Committee in terms of the risk identified. The Strategy was evolving and when Government regulations were in place the Statement of Investment Principles would be replaced with a Funding Strategy Statement. This would be taken account of in the Risk Register. It was noted that discussion at the previous week's Pension Fund Committee had indicated that pooling would not eliminate the Pension Fund Committee from setting its Investment Strategy, however, the process would take away the implementation of that Strategy, directly, from the Committee.

- ◆ A Member asked whether the vote to exit from the EU had been considered as an appropriate risk in terms of its potential effect on the Investment Strategy and a number of other factors that could be affected by this. It was acknowledged that the decision to leave the EU was resulting in wide scale changes, both politically and economically, and, as a new risk, it was asked whether this was being taken account of within the Risk Register. In response it was stated that some time would be taken to determine how the exit from the EU would affect the issues around the North Yorkshire Pension Fund before any decisions were taken as to the effect this may have. It was acknowledged that a change to the Investment Strategy may be required, but at the present time, this could not be determined. A number of Members agreed that it was too soon to determine what effect leaving the EU would have on the Fund.

In terms of the risk relating to exit from the EU it was suggested that this was covered in the Risk Register through the Investment Strategy risk.

In respect of this issue it was emphasised that no request had been made to change the risk assessment or plan, however, it was suggested that details of how the situation would continue to be monitored should be provided alongside the narrative to the Investment Strategy risk.

- ◆ It was asked when details of the next triennial valuation would be available. In response it was stated that this took place on 31 March 2016 and details were likely to be with Members by early 2017. It was emphasised that the current market variations since the valuation would be taken into account when details were provided. A Member considered that he would have expected to see the details by late summer. In response it was stated that the time stated was usual practice for the Pension Fund and it was noted that with over 90,000 members, collecting the appropriate data took a substantial period of time. In respect of the triennial valuation it was emphasised that this did not affect the current Investment Strategy which was not replaced at every valuation, but may require some tweaking following that.
- ◆ A Member suggested that issues arising from Pension Fund Committee meetings and, therefore, the report by the Chairman to the Pension Board of those meetings, should be moved further towards the beginning of the agenda for future Pension Board meetings, to take account of issues raised earlier in the meeting. It was agreed that this would be an appropriate course of action.

Resolved -

That the comments and observations raised by Pension Board Members be noted and that feedback from Pension Fund Committee meetings would be moved up the agenda for future meetings.

48. External Audit Report to Audit Committee - “Maintaining an Effective Control Framework”

Considered -

The report of Legal and Democratic Services providing details of the External Auditor’s interim report on its work to date in relation to the audit of the Pension Fund’s Financial Statements 2015/16.

It was noted that the audit of the 2015/16 Financial Statements was currently being undertaken by KPMG and that this would be their first audit of the North Yorkshire Pension Fund.

The interim audit work on the Pension Fund Financial Statements took place in March and April 2016 and, following this, KPMG produced a report outlining their key findings and recommendations which was attached as an Appendix to the report.

The report was considered by the Audit Committee at its meeting on 23 June 2016 and a verbal update of the Committee's comments was given to this meeting.

The final audit of the North Yorkshire Pension Fund Statement of Accounts would take place during July and August 2016.

Members raised the following issues and points:-

- ◆ Arising from the audit the North Yorkshire Pension Fund had been given a clean bill of health aside from a small number of minor issues around the reconciliation of bank accounts and the signing off of journal entries. In relation to these issues assurances were provided that appropriate controls were in place and that appropriate signing of and supporting documents were provided.
- ◆ It was noted that the County Council had developed a good relationship with the External Auditors since they had taken on the role.
- ◆ It was stated that the full reconciliation of the Pension Fund accounts had not quite been completed, but this was expected to be in place shortly. It was noted that the timing of the External Auditor's checks in relation to this had led to the delays and this had been challenged with them with a view to avoiding this position in future. It was noted that the audit that had been carried out to date, and reported to the County Council's Audit Committee, had not identified any significant concerns.

Resolved -

That the contents of KPMG's report be noted and a copy of the finalised minutes of this meeting be submitted to the External Auditor, accordingly.

49. Draft Minutes of the Pension Fund Committee meeting held on 19 May 2016 and the report of the meeting held on 7 July 2016

The Chairman reported on the Minutes of the Pension Fund Committee of 19 May, that were approved at its meeting held on 7 July, and on issues raised at that meeting.

The Chairman highlighted the following issues that were raised at the 7 July meeting:-

- ◆ Pooling.
- ◆ The Pension Fund's Final Accounts.
- ◆ Governance documents.
- ◆ The Communications Strategy.
- ◆ The Fund's Investment Strategy.

- ◆ The intended move from the Statement of Investment Principles to an Investment Strategy Statement.

In respect of the issues raised it was noted that the Government was in the process of producing the regulations for the Investment Strategy Statement, to replace the Statement of Investment Principles, but currently there was no indication as to when these would be in place. The document was required for the Pension Fund's Annual Report and, unless the regulations were in place, then the Statement of Investment Principles would continue to be used for the Annual Report. It was noted that the Pension Fund Committee had agreed a delegation process to enable the regulations to be applied as soon as they were available enabling the position to be updated as quickly as possible.

Issues around pooling had been further discussed, which had included a discussion on the Committee's influence over the Funding Strategy, with the pool reducing the chance for direct contact with Fund Managers.

It was noted that the Final Accounts would be published before the end of September 2016 and noted that, in future, the publication of accounts would take place earlier in the year.

Members of the Pension Board discussed issues around the possibility of the Pension Fund investing into the prime debt market, with the pros and cons outlined.

Resolved -

That the issues raised at the Pension Fund Committee meetings be noted and the Chairman be thanked for his report.

50. CIPFA Seminar - "Local Pension Boards - One Year On"

The Chairman reported on the seminar, that he had attended on 29 June 2016, and it was noted that he had circulated details of the issues raised at that seminar to Members of the Pension Board prior to the meeting. He considered that the seminar had been worthwhile and had provided an opportunity to determine how Pension Boards were progressing, following their initial establishment. He stated that the North Yorkshire Pension Board was performing appropriately and in line with other Pension Boards throughout the country, although different Boards had different techniques and processes in respect of how they performed their responsibilities.

A Member asked whether other Pension Boards were operating separate Risk Registers from their Pension Fund Committees and whether this should be developed for the North Yorkshire Pension Fund. The Chairman stated that this matter was not discussed at the seminar, however, it was an issue that could be investigated if Members of the Pension Board so wished.

Officers stated that they would consider what other Pension Boards were undertaking, in terms of their own Risk Registers, and whether this was a matter that could be developed by the North Yorkshire Pension Board. It was further suggested that consideration be given to the wider practice of other Pension Boards, by officers, with a view to developing best practice.

In discussion of the development of a Risk Register and potential risks to the Pension Fund it was noted that, should the Pension Board identify an additional risk that was not included in existing Risk Registers, this would be brought to the attention of the

Pension Fund Committee, who in turn would be required to respond to the Pension Board on what they were doing to address this matter.

Resolved -

That the Chairman be thanked for his feedback from the seminar and the actions identified be undertaken accordingly.

51. Training and Meeting Dates

Considered -

The report of Legal and Democratic Services providing an update on Pension Board Member training and details of meeting dates for the remainder of the 2016/17 municipal year and proposed dates for the 2017/18 municipal year.

Details of training undertaken by Members of the Board was highlighted in the report and Members were invited to provide any further training details, which they considered relevant to their service to the Pension Board, to be submitted to the Clerk, allowing the training record to be updated. It was stated that details of any relevant training, whether connected to pensions issues or not, would outline the collective knowledge and development of the Pension Board's members.

The following meeting dates for 2016/17 and 2017/18 (all Thursdays at 10 am) were also outlined, as follows:-

2016/17

6 October 2016
26 January 2017
20 April 2017

2017/18

20 July 2017
12 October 2017
18 January 2018
12 April 2018

Resolved -

- (i) That Members continue to identify any appropriate training needs and aim to complete the modules on the Pension Regulators website.
- (ii) That the meeting dates for 2016/17 and 2017/18, as detailed above, be noted.

52. Pension Board Work Plan

Considered -

The Pension Board's approved Work Plan and potential areas of work for the Board.

A Member stated that, in the near future, as some of his current work included this, he would like to lead on item 19 within the Work Plan, the review of the exercise of employer and administering authority discretions. In response the Chairman

suggested that a one page proposal of how this was to be carried out, and the conclusions that would be developed from that, would be appropriate and officers stated that they would work alongside the Member to determine the best approach to this. Further details on the scope for this piece of work, and proposed timescales, would be provided to the next meeting of the Pension Board.

It was noted, from a Member's question, that he was not receiving the Pension Fund Committee papers and it was agreed to rectify this. It was stated that, in relation to his questions, the Pension Fund Committee often held meetings with Fund Managers to determine how the Investment Strategy was being addressed and that Pension Board Members were able to attend those meetings, unless any confidential information was to be discussed.

A Member noted that some of the issues identified in the Work Plan were falling behind the timescales indicated. In response it was acknowledged that this was the case, however, the development of pooling arrangements had taken precedent over some of the issues to be addressed by the Pension Fund Committee, before coming to the Pension Board, and had slipped therefore. It was expected that these matters would be addressed subsequently and would be brought to the Pension Board accordingly.

Resolved -

That the Work Programme be noted and the item of work identified, as detailed above, be the subject of a report to the next meeting of the Pension Board to determine scope and timescale.

53. LGPS Pooling - Update

Considered -

The report of Legal and Democratic Services providing an update on LGPS pooling arrangements, in respect of the proposed submission of a detailed proposal relating to the BCPP Fund, of which the North Yorkshire Pension Fund agreed to join in principle, by 15 July 2016.

It was noted that a draft detailed proposal had been submitted to the previous week's Pension Fund Committee, with responses expected from all the pool's participants, before the submission was sent.

In relation to that officers indicated that there had been only minor changes to the proposal, provided as an Appendix to the report, and that those amendments had been of a superficial nature. It was stated that although the arrangements could evolve as the pool developed, the format and structure set out in the Appendix were the likely initial starting point for the pool.

Discussion of the report resulted in the following issues and points being raised:-

- ◆ Issues around the costs of establishing the pool and the time period for those costs to be fully met, in terms of North Yorkshire Pension Fund, were discussed. In relation to this it was noted that NYPF was in a relatively strong position, in terms of the recovery of those costs, in comparison to other Funds entering into pooling arrangements.
- ◆ Concern was expressed in relation to the development of a further layer of bureaucracy, at a cost to the North Yorkshire Pension Fund Scheme

members, and it was requested that details of costs/savings and transitional costs be outlined to inform those within the Scheme.

- ◆ It was suggested that a comparison should be undertaken to determine whether the investments by the North Yorkshire Pension Fund would have performed better as a separate entity rather than under the pooling arrangements to determine whether the process had been of benefit. A Member suggested that details of how much additional expenditure, as opposed to what was being spent now in administering the Fund, should also be outlined.
- ◆ Issues around the role of the Pension Board in the governance arrangements for the pool were discussed. It was noted that governance arrangements were not yet in place and these would be determined shortly. Concern was raised that details of how the whole process would work was yet to be developed and it was not clear how the Pension Board would relate to that. An explanation was provided as to the expected process for the operation of the pool and its inter-relation between the Joint Steering Committee, the Pension Fund Committee and the Pension Board. Full details of that process, when it was established, would be presented to the Pension Board.
- ◆ It was indicated that potential savings for the North Yorkshire Pension Fund, and pool members as a whole, could emanate from the economies of scale of combining the Funds, which could offset some of the additional administrative costs required to establish the pool. It was likely that Fund Manager fees would be reduced, through the pooling arrangements, which would generate appropriate savings. It was acknowledged that there would be transition costs and Members' concerns in respect of those were noted. A projection of the expected savings, following the initial period of transition costs, was requested by a Member of the Board.
- ◆ Members of the Board expressed concern regarding the role of the Pension Board with the pool, as there appeared to be no direct link between the two. There was also concern expressed regarding the appointment of a Chief Executive who would appear to be quite powerful, in terms of the pool's investment opportunities, which seemed to contradict the Government's new regulatory framework for LGPS.
- ◆ In response to issues raised it was stated that it would be determined whether a cost comparison analysis could be carried out to share with the Pension Board. It was again stated that the Investment Strategy of North Yorkshire Pension Fund would determine how the money was invested within the pool and, therefore, the Pension Board would have influence over that. The pool would determine the Managers that could be utilised in terms of that Investment Strategy, which was the major alteration to the current process. It was noted that, should the Pension Fund Committee wish to pursue a specific investment, then they would have to utilise the Fund Manager appointed through the pooling process.
- ◆ In terms of the Chief Executive for the pool it was emphasised that the Joint Committee would be the overarching body that would control the pool, with representatives from each of the Pension Funds being members of that. The Joint Committee would also provide influence on an operational level and would co-ordinate the operating company. It was noted that details of how this would operate were outlined in the attached Appendix.

- ◆ It was noted that the Pension Fund Committee had concerns around their contact with Fund Managers, through the pooling arrangements, and would prefer to have direct contact with those Fund Managers if possible.
- ◆ A Member suggested that the current necessity to divide into several funding pools would have been more cost effective if the Government had required a national funding pool from the LGPS. It was noted that, at this stage, Central Government's requirement was for funding pools of £25bn or more, which was how the pools had been established. The Member considered that the economies of scale required would have been more substantial should a national pool have been developed. It was noted that some other public sector pension schemes had national funds, however, it was emphasised that the LGPS held assets, whereas other public sector funds did not, and were controlled by Central Government.
- ◆ It was noted that the move towards pooling had initially been seen by the Government as a method of generating infrastructure investment, although, subsequently, it had been emphasised that this was not a necessity and there would be no compulsion to provide the combined funds for infrastructure projects. It was considered that, going forward, there was a likelihood that the infrastructure investment issue would re-emerge.
- ◆ It was noted that the initial costs for the establishment of the pool structure would be split between the participating Pension Funds, with each providing an equal amount for that. Members again expressed concern that this required additional funding from the North Yorkshire Pension Fund, with no short term return.
- ◆ It was noted that the second submission, providing more detail for the pooling arrangements, was due to be in place on 15 July, the day following the Pension Board meeting. Members asked that, in future, the Pension Board be provided with an opportunity to specifically comment on the issues in relation to the development of the pool, rather than be issued with final proposals, as appeared to be the case in relation to the second submission. Members considered that, despite acknowledging the time constraints in place, the Pension Board had not been provided with an appropriate opportunity to comment on those proposals.
- ◆ In respect of this it was noted that the next stage would be to develop a Shadow Joint Committee for the pool and that opportunity would be provided to the Pension Board to comment on how that was progressing, to provide views on the process and to be involved in the development of that. Officers emphasised that the Pension Board would be updated and informed of the progression of the pooling arrangements. It was requested that when the Government responded to the second submission that this was circulated to Pension Board Members.

Resolved –

- (i) that a comparison should be undertaken to determine whether the investments by the North Yorkshire Pension Fund would have performed better as a separate entity rather than under the pooling arrangements to determine whether the process had been of benefit, and that the additional

expenditure, as opposed to what was being spent now in administering the Fund, should also be outlined;

- (ii) that full details of how the Pension Board would interact with the governance process for the Pool, when it was established, be presented to a subsequent meeting of the Pension Board;
- (iii) that, in future, the Pension Board be provided with an opportunity to specifically comment on the issues in relation to the development of the Pool, rather than be issued with final proposals, as appeared to be the case in relation to the second submission;
- (iv) that opportunity be provided to the Pension Board to comment on how the Shadow Joint Committee for the Pool was progressing, to provide views on the process and to be involved in the development of that;
- (v) that when the Government responded to the second submission this be circulated to Pension Board Members; and
- (vi) that the contents of the July submission be noted, the issues raised be noted and the actions outlined be undertaken accordingly.

The meeting concluded at 11.55 am.