

## Agenda

**Meeting: Pension Fund Committee**

**Venue: The Brierley Room, County Hall,  
Northallerton, DL7 8AD**  
(location plan attached)

**Date: Thursday 22 November 2018 at 10 am**

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### Business

1. **Exclusion of the Public and Press – Exclusion of the public and press from the meeting during consideration of the item of business listed in Column 1 of the following table on the grounds that it involves the likely disclosure of exempt information as defined in the paragraph(s) specified in column 2 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to information)(Variation) Order 2006:-**

Item number on the agenda	Paragraph Number
5	3

2. **Minutes of the meeting held on 13<sup>th</sup> September 2018 and the Special Meeting held on 31<sup>st</sup> October 2018**  
(Pages 6 to 24)
3. **Declarations of Interest**

#### 4. Public Questions or Statements

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Steve Loach of Democratic Services (*contact details at the foot of page 1 of the Agenda sheet*) by midday on Monday 19 November 2018. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

5. **Investment Strategy - Transition of Funds - Report of the Treasurer** (Pages 25 to 110)
6. **Pensions Administration Report - Report of the Treasurer** (Pages 111 to 133)
7. **Budget/Statistics - Report of the Treasurer** (Pages 134 to 137)
8. **Performance of the Portfolio - Report of the Treasurer** (Pages 138 to 151)
9. **Pooling Arrangements - Report of the Treasurer** (Pages 152 to 153)
10. **Pension Board – Draft Minutes of the meeting held on 11 October 2018 - Copy of the draft Minutes enclosed - Verbal update by the Chair of the Pension Board.** (Pages 154 to 164)
11. **Such other business as, in the opinion of the Chairman should, by reason of special circumstances, be considered as a matter of urgency**

#### NOTE:

**Following the formal meeting there will be an informal session on Alternatives from BCPP and an Alternatives workshop with the Fund's consultants. Lunch will be provided.**

**These afternoon sessions will replace the meeting on Friday 23 November.**

Barry Khan  
Assistant Chief Executive (Legal and Democratic Services)  
County Hall  
Northallerton

November 2018

**Notes:****Emergency Procedures for Meetings****Fire**

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Persons should not re-enter the building until authorised to do so by the Fire and Rescue Service or the Emergency Co-ordinator.

An intermittent alarm indicates an emergency in nearby building. It is not necessary to evacuate the building but you should be ready for instructions from the Fire Warden.

**Accident or Illness**

First Aid treatment can be obtained by telephoning Extension 7575.

# PENSION FUND COMMITTEE

## 1. Membership

County Councillors (8)						
	Councillors Names				Political Group	
1	BLACKIE, John				NY Independents	
2	CHAMBERS, Michael MBE				Conservative	
3	LUNN, Cliff				Conservative	
4	MULLIGAN, Patrick				Conservative	
5	SOLLOWAY, Andy				Independent	
6	SWIERS, Helen (Vice-Chairman)				Conservative	
7	THOMPSON, Angus				Conservative	
8	WEIGHELL, John OBE (Chairman)				Conservative	
Members other than County Councillors (1 and 2) Voting (3) Non-voting						
1	GILLIES, Ian			City of York		
2	CLARK, Jim			North Yorkshire District Councils		
3	PORTLOCK, David			Chair of the Pension Board		
Total Membership – (10)				Quorum – (3) County Councillors		
Con	Lib Dem	NY Ind	Labour	Ind	Other Voting Members	
6	0	1	0	1	2	

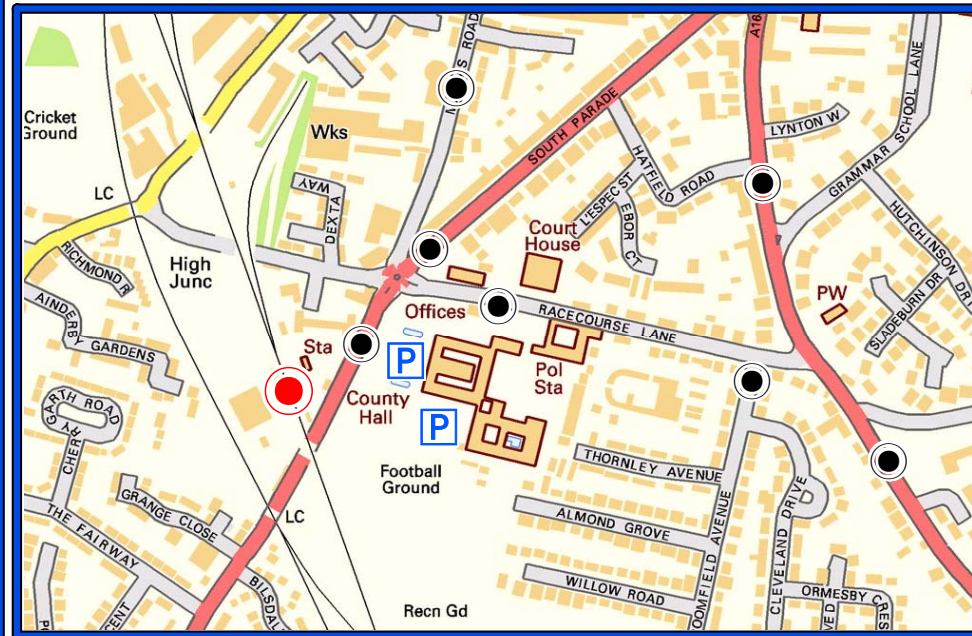
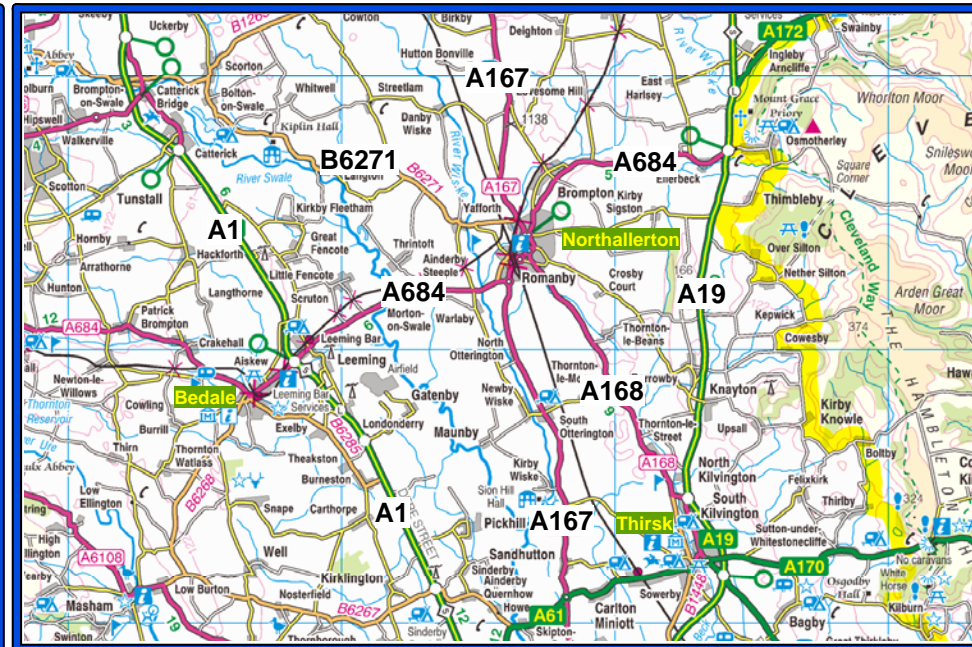
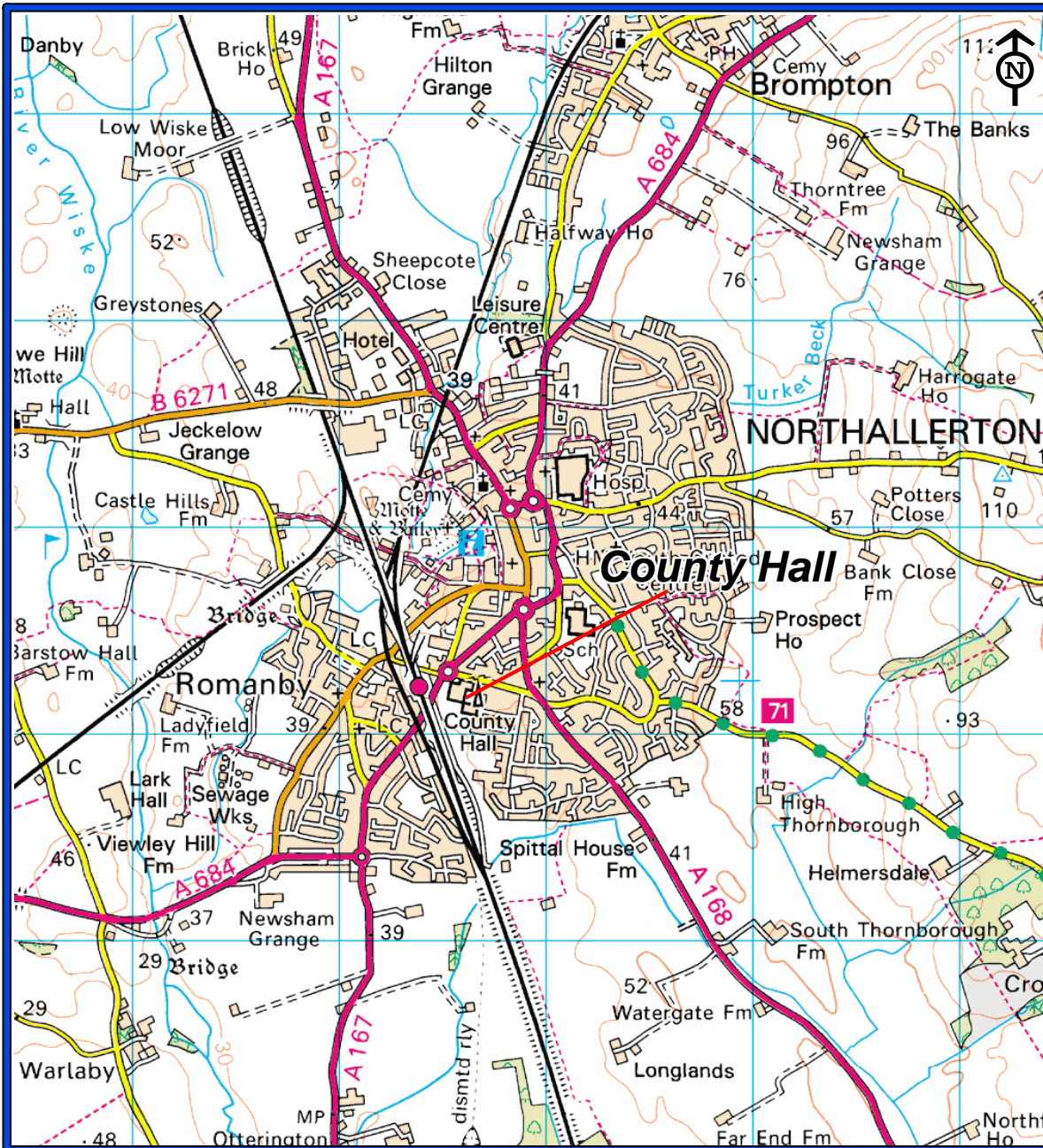
## 2. Substitute Members

Conservative			
	Councillors Names		Councillors Names
1	BLADES, David	1	
2	PEARSON, Chris	2	
3	LES, Carl	3	
4	WINDASS, Robert	4	
5	MANN, John	5	
NY Independents			
	Councillors Names		
1			
2			
3			
4			
5			

## 3. Substitute Members

1	STEWART, Chris	City of York
2	PEACOCK, Yvonne	North Yorkshire District Councils





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North Yorkshire  
DL7 8AD

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North  
Yorkshire County Council

# North Yorkshire County Council

## Pension Fund Committee

Minutes of the Meeting held on 13 September 2018 at County Hall, Northallerton commencing at 10 am.

### Present:-

County Councillors John Weighell OBE (Chairman), Michael Chambers MBE, Cliff Lunn, Patrick Mulligan, Helen Swiers and Angus Thompson.

Councillor Chris Steward (as substitute for Councillor Ian Gillies) - City of York Council.

Councillor Jim Clark - North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

### In attendance:-

County Councillor Don Mackay, Brian Hazeldene (Unison) and Peter Scales (Independent Observer to the North Yorkshire Pension Fund).

Apologies were received from County Councillors John Blackie and Andy Solloway, together with Councillor Ian Gillies (City of York).

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

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### 75. Minutes

#### Resolved -

That the Minutes of the meeting held on 5 July 2018 and the special meeting held on 18 July 2018, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

### 76. Declarations of Interest

There were no declarations of interest.

### 77. Public Questions or Statements

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

### 78. Pensions Administration Report

Considered -

The report of the Treasurer providing Members with information relating to the administration of the Fund over the year to date and providing an update on key issues and initiatives which impact the Administration Team.

The following updates were provided in relation to the report:-

- ◆ The Administration Team remain focused on reducing outstanding work and ensuring day to day business as usual was being processed within agreed timescales.
- ◆ The number of academy conversions has steadied, which assisted with the day to day planning of work.
- ◆ There had been four complaints during the period 1 April 2018 to 30 June 2018, with no discernable trend.
- ◆ In terms of Annual Benefit Statements issued the current figures were, 99% deferred and 83% actives.
- ◆ Included in the Governance report, later in the agenda, were details in relation to the re-introduction of penalties for employers providing late or inaccurate data alongside the creation of a Charging Policy document which provided details of the basis, structure and level of charging being introduced. It was noted that alongside the charging of employers, from April 2019, a re-engagement exercise would be undertaken to offer support and training with a view to improving relationships and engagement with all employers across the Scheme.
- ◆ GMP reconciliation - the project was continuing and, although this had extended beyond the proposed timescales, the contract for the process being undertaken by ITM would not lead to any further costs as this was a fixed price contract.
- ◆ The project relating to the reduction in the number of standard letters was continuing, however, resources had been required elsewhere due to demand within the Team which had resulted in this slowing down for a period of time.

The Treasurer reiterated the issues around the principles for re-introducing a charging policy for employers and stated that the report sought Members' approval to the principal of charging employers for the provision of poor quality data, late data and late payment of contributions. He emphasised that the charging regime was not intended as a profit making enterprise for North Yorkshire Pension Fund, but was to address a growing problem in terms of these issues.

A Member highlighted the availability of the Pensions Regulator to work alongside Pensions Administration Officers in terms of penalties for employers who were not providing data appropriately. In response it was emphasised that, initially, client relationship management and support would be provided with a view to addressing the matter without penalty. Should employers then continue to provide late or inaccurate data then the appropriate sanctions would be put in place, including the involvement of the Pensions Regulator if necessary.

It was noted that there had been a reduction in active members and it was asked whether this trend was likely to continue. In response it was stated that a large amount of outstanding work had been cleared during the period which had affected the figures and it was not known whether this would be a continuous trend. Members noted that there had been some surprise, previously, that active figures had not dropped dramatically despite the reduction of staff working within the public sector in the area. In relation to this



it was noted that figures had been effected by auto-enrolment and by people having a number of part-time positions which affected the actives' figures.

**Resolved -**

- (i) That the contents of the report be noted.
- (ii) That the contents of the breaches log be noted.
- (iii) That Members approve, in principle, the re-introduction of employer charging for the provision of poor quality data, late data and late payment of contributions.

**79. Budget/Statistics**

Considered -

The report of the Treasurer on the following:

- (a) 2018/19 Budget - cost of running the Fund.
- (b) The three year cash-flow projection for the Fund.

2018/19 Budget

The forecast outturn was estimated to be in line with the 2018/19 budget at £22.6m.

Three Year Cash-flow Projection

The projection included the contribution income and benefits payable, the main inflow and outflow of the Fund, which would determine when the Fund would turn cash-flow negative. The estimated cash-flow for the Fund in 2018/19 was a £6.8m deficit which had increased from the last quarter where a £4.6m deficit was reported. The deficit position is mainly due to the £13m pre-payment of deficit contributions, relating to 2018/19, in 2017/18. In view of this it was expected that the Fund would be back in a surplus cash position during 2020/21.

The following issues were raised:-

- ◆ It was asked whether the £10m included in the budget for investment management base fees was an estimate. In response it was stated that the figure was based on the size of the Fund and the actuals for 2017/18, therefore, this was an estimate but based on expected figures. It was noted that Fund Managers had been requested previously to provide exact details in terms of fees and further contact would be made with them to ensure these details were provided accordingly. Members emphasised the details were required to ensure that the monitoring of the effectiveness of the pooling arrangements were appropriate going forward.
- ◆ Issues around the initial charges, in relation to the establishment of the pooling arrangements, were queried. In response it was stated that it was expected that the set-up costs would be in line with what had been reported previously and that they had been divided equally between the twelve Pension Funds involved. It was noted that the Customer Relationship Manager for the Pool would be attending a meeting with Pension Fund Members on 14 September 2018 and detailed questions could be submitted to him.



**Resolved -**

That the report be noted.

**80. Governance of the Fund**

Considered -

The report of the Treasurer:-

- (i) Requesting Members to review a range of governance documents and to approve or note as appropriate:
  - ◆ NYPF Business Plan
  - ◆ Pensions Administration Strategy
  - ◆ Employer charging policy
  - ◆ NYPF Annual Report and Accounts.
- (ii) Updating Members on progress made on the following governance documents:
  - ◆ Admissions and Terminations Policy
  - ◆ Statement of Compliance with the UK Stewardship Code.
- (iii) Updating Members on the Annual Governance Review of the Fund undertaken by the Fund's Independent Professional Observer.
- (a) NYPF Business Plan

The Treasurer stated that this was a new governance document, in line with recommendations from the Pensions Regulator. The Plan would be used to manage the Scheme effectively and enable Scheme Members to get good outcomes. The Plan would also enable the Committee to plan ahead and improve their ability to comply with legal requirements. A draft of the Plan was provided and Members were asked to comment.

The following issues were raised:-

- ◆ It was asked why there were no timescales in relation to the key actions within the Plan. In response it was stated that all the actions outlined were expected to be undertaken during the current year, however, it was acknowledged that a timescale for when the action completed was not detailed. It was noted that the Plan would be reviewed at the end of each year and major actions would continue to roll forward until they were completed. It was noted that the Plan would be monitored and would be submitted to the Committee to outline progress. It was acknowledged that a year on the cover of the Business Plan should be included and details of progress on actions should be provided at future PFC meetings..

The Fund's Independent Professional Observer, Peter Scales, highlighted the following:-

- ◆ He noted that the Plan was still developing.
- ◆ The Plan reflected the Pension Regulator's guidance and good practice elsewhere.
- ◆ There was no mention of risk management in the objectives or a link to the Risk Management Policy and Register.
- ◆ There was no indication as to how activities would be tracked over the following years.
- ◆ It was worth considering developing the work plan alongside that of the Pension Board.
- ◆ It was noted that the Pension Board and Pension Fund Committee had tried to align their work so as not to overburden officers with duplication of work.

The Treasurer stated that he would take account of the issues that had been raised when further developing the Business Plan.

(b) Pensions Administration Strategy

It was explained that normally the Pensions Administration Strategy would have been provided with other governance documents at the July meeting of the Committee, however, the Employer Charging Policy was still under development at that time and, therefore, as that document sat alongside the Pensions Administration Strategy it was considered appropriate to bring them both to this meeting.

The Independent Professional Observer highlighted the following:-

- ◆ The Strategy complied with the appropriate regulation.
- ◆ He suggested that the Strategy Statement should reflect the yearly performance, as outlined in the Annual Report.

In response to the issues raised the Treasurer suggested that alterations to the Statement be delegated to officers, rather than bringing the issue back to the Committee, allowing Members to approve the document subject to the alterations taking place.

(c) Employer Charging Policy

As stated above, an Employer Charging Policy had been created which set out the Fund's policy regarding charging employers. It was noted that the client relationship management initiative would be undertaken before the policy was imposed on employers, with a view to encouraging them to change current practices with data being submitted correctly and on time. It was proposed, therefore, that the policy would be implemented from April 2019 onwards.

The following issues were raised:-

- ◆ It was suggested that the Charging Policy was clear in providing details of when charges would be imposed. It was noted that charges could already be issued, however, the creation of the Policy indicated to

employers that the NYPF was taking positive action to deal with continuing problems.

- ◆ It was noted that thresholds were in place in terms of when fees would be implemented, but it was emphasised that a small error could still have a large scale impact.
- ◆ It was acknowledged that the NYPF Administration Team had not adequately developed relationships with some of the employers recently and were unaware of changes that may affect the supply of data, therefore, the re-establishment of those relationships was being sought through the client relationship management initiative. It was noted that some very small employers may be experiencing difficulties with their Pension's administration and the initiative would assist in identifying that and rectifying the situation without imposing charges. It was also emphasised, however, that dealing with pensions' issues was part of the Service Level Agreement between the employer and the Fund and, therefore, there should be a good level of competency in place when dealing with those matters.

The Chairman of the Pension Board noted that should there be significant delays in publishing Annual Benefit Statements, due to employers not supplying data appropriately, then the Pension Board would need to consider whether the matter was a reportable breach. The Treasurer emphasised the need to ensure that employers were complying with the necessary requirements and appropriate action was being taken to rectify the situation.

(d) Annual Report

The Treasurer provided details of the 2017/18 Annual Report. He noted that the Final Accounts, included within the report, had been signed off by the External Auditor, and had been approved by the County Council's Audit Committee. Details of changes to the accounts since publication of the draft accounts were provided for Members to note.

He noted that the Annual Report would return to the External Auditor for their final opinion, subject to Members' approval, and would then be published on the NYPF website.

The Independent Observer to the Fund was invited to comment, and he outlined the following:-

- ◆ The Annual Report complied with CIPFA guidance, and it was for the Committee to decide how much of the information suggested by CIPFA was included.
- ◆ Details of employer contributions – information within the link did not show the actual contributions paid by the employer. CIPFA suggested that a breakdown of the figures should be provided.
- ◆ Performance on paying contributions on time – it would be useful to provide an indication of the scale of late payments, the action being taken to recover those and any interest charged.
- ◆ Providing details of the attendance of Members at Pension Fund Committee Meetings should be considered.

- ◆ A statement of compliance with the CIPFA Code of Practice should be included.
- ◆ There were no details in respect of employer performance against the standards set in the Pensions Administration Strategy.
- ◆ Consideration should be given to including the Annual Report of the Pensions Board.

The issues raised were acknowledged. It was noted that the County Council operated a separate system in relation to the reporting of attendance at Committees, but it would not be detrimental to include those details in the Annual Report. There is currently a link to committee attendance in the report.

The Treasurer welcomed the comments and, noting that the current report was fully compliant with the appropriate guidance, suggested that the issues were taken account of and addressed when subsequent Annual Reports were compiled.

(e) Admissions and Terminations Policy/Statement of Compliance with UK Stewardship Code

The report provided updates in relation to these issues.

(f) Fund Governance Review - Report of the Independent Professional Observer

The Independent Professional Observer, Peter Scales, highlighted the following in relation to the governance of the Fund and the related governance documents:-

- ◆ The Pension Fund and Pension Board were both operating well with high standards of governance. The governance standards were being maintained and improved and were consistent, if not to a higher standard, than other comparator Funds.
- ◆ He noted that the recent Internal Audit report provided an overall conclusion that arrangements for managing risk were good and that controls within the system provided substantial assurance.
- ◆ In terms of any issues/control weaknesses identified through Internal Audit and Pension Board consideration, these were not significant and could be easily rectified.
- ◆ Audit assurance assisted the Pension Board to help members meet their responsibilities and test the robustness of internal controls.
- ◆ Policy documents were found to be compliant with the appropriate regulations.
- ◆ In terms of the Governance Compliance Statement it was noted that this had been carefully worded to reflect all aspects of the regulations and guidance. It was suggested that it would be helpful to indicate that the Pension Board was not a committee in legal terms and that the Chair of the Pension Board attended meetings of the Pension Fund Committee in a non-voting capacity.

- ◆ The purpose of the governance roles and responsibilities document was not apparent.
- ◆ The Governance Compliance Statement complied with the appropriate regulations and was appropriate.
- ◆ The Funding Strategy Statement would be reviewed as part of the 2019 triennial valuation.
- ◆ In terms of the Communications Policy he noted that this was under development, but was unclear as to whether the Policy, in relation to the format, frequency and method of distributing information or publicity complied with the appropriate regulation. He noted the move to electronic based communications and the need to reference this within the policy statement.
- ◆ He welcomed the relatively simple framework in place for the existence, use and understanding of risks. He considered the Risk Register to be fully compliant with the regulation, but suggested that the work of the Pension Board should feature as part of the mitigating process.
- ◆ His consideration of other documents had been outlined earlier in the meeting.
- ◆ The introduction of pooling arrangements represented a major change for LGPS funds and it was recognised there were still a number of detailed governance issues to be resolved, particularly in the transition to a new structure, through which the Committee and Board could continue to meet their responsibilities. A major issue, which had been discussed by both Committee and Board was the introduction of Member representation on the Pool's Joint Committee (JC). The matter had been recognised by the Scheme Advisory Board and had been discussed at a number of events. It was noted that there was a growing expectation that Scheme Member representatives would be involved.
- ◆ An Appendix to the report outlined issues in relation to the involvement of local Pension Boards in the pooling arrangements.
- ◆ Other issues highlighted in the report which had been considered by the Scheme Advisory Board were outlined as follows:-
  - The separation project - to identify issues deriving from the current Scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and Scheme Manager role.
  - A project to identify regulations which may be better cited within statutory guidance and assist with the drafting of revised regulations and guidance.
  - A project to assist administering authorities in meeting the Pension Regulator's requirements for monitoring and improving data.

The following issues were raised in relation to the Independent Observer's report:-

- ♦ The Treasurer stated that the issues raised by the Independent Observer in relation to the key projects identified by the Scheme Advisory Board, together with a number of other details identified, would be the subject of a subsequent report to the Pension Fund Committee, providing greater details of the issues and the possible effect these would have on the Fund.
- ♦ The Chairman noted that discussions had been taking place at BCPP in relation to the appointment of a Scheme Member representative on the JC, however, it was recognised and acknowledged that this would be a sensitive matter, particularly in relation to identifying representatives to cover all of the Funds involved in the Pool, without increasing the size of the JC to unmanageable levels.
- ♦ Issues around investments, the drive to ensure that responsible investment strategies were in place and that these were not subject to political influences, was discussed. Members noted the difficulty faced in terms of identifying appropriate investments that did not conflict with others ideologies was proving more and more difficult. It was emphasised that the North Yorkshire Pension Fund made every effort to ensure that it undertook responsible investments, but the Strategy also looked to maximise returns for investments. It was noted that this would be a challenge for the pooling arrangements, going forward.
- ♦ The Treasurer stated that account would be taken of the issues raised by the Independent Observer and a number of the governance documents would be amended during the next review to take account of the significant points that had been raised within his report.

**Resolved -**

- (i) (a) That the NYPF Business Plan be approved.
- (b) That the Pensions Administration Strategy be approved, subject to the alterations highlighted being delegated to Officers to undertake.
- (c) That the Employer Charging Policy be approved.
- (d) That the NYPF Annual Report be approved.
- (ii) That the changes made to the NYPF Statement of Accounts be noted.
- (iii) That the progress made on the Admissions and Terminations Policy and the Statement of Compliance with the UK Stewardship Code be noted.
- (iv) That the content of the Annual Governance Review undertaken by the Independent Professional Observer be noted and subsequent changes be made to the governance document in respect of the issues raised before the next review of those documents.

**81. Pension Fund Training**

Considered -

The report of the Treasurer requesting Members to:-



- (i) approve the draft Training Policy of the North Yorkshire Pension Fund;
- (ii) agree to adopt the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills;
- (iii) agree to adopt the CIPFA Knowledge and Skills Framework and its circulation to all Committee Members to assess their own knowledge and skills on an annual basis.

The Treasurer stated that, in line with a recognition of the importance of providing training to Committee Members, Board Members and officers in relation to Pension Fund matters, ensuring that the relevant skills and knowledge to carry out their roles and responsibilities to the Fund were in place, a training policy had been drafted for PFC Members and officers, and was attached as an Appendix to the report. It was noted that the Pension Board had their own training policy that was reviewed annually and the intention was to create something similar for the Pension Fund Committee, which would be reviewed as part of the Annual Governance Review.

As best practice it is recommended by the Pensions Regulator that Members of the Pension Fund Committee carry out regular skills and knowledge reviews.

CIPFA had developed a Code of Practice on Public Sector Pension Finance Knowledge and Skills in 2013 and details were set out in the report. CIPFA had also published the Pensions Finance Knowledge and Skills Framework in 2010 and details of that were also provided.

The Skills and Knowledge Framework for Committee Members was attached as an Appendix to the Training Policy, which Members were asked to adopt.

It was also suggested that Members undertake an individual self-assessment annually against the framework. Using the results of the self-assessment against the CIPFA Knowledge and Skills Framework an annual training programme would be produced with the progress made against the programme being reviewed each quarter at Pension Fund Committee meetings.

Should Members agree to adopt the CIPFA Framework this would be circulated for completion and the results of self-assessments would then be used to produce the 2019/20 Training Programme, which would be brought to the February PFC meeting along with the Business Plan and budget, for approval.

The following issues and points were raised in relation to the report:-

- ◆ A Member suggested that it was ironic that the policy was being introduced just as the investments were about to move to the pool, with less involvement for the Committee. In response the Treasurer stated that the complex issues that would be in place for the Committee, going forward, including their involvement in the pooling arrangements, were appropriate reasons for introducing the policy.
- ◆ A Member considered that it should be identified why the training was required by Members and a tailor-made policy provided so as not to introduce training for training sake. The Treasurer acknowledged this and considered that the training would be purposeful.
- ◆ The Independent Professional Observer considered it appropriate for the Pension Fund Committee to have a Training Policy. He emphasised that the Pension Fund Committee would remain responsible for the Investment

Strategy, going forward, and the training would be appropriate to meeting those requirements in terms of skills and knowledge. He considered that a toolkit had been established by the Pensions Regulator which was more suitable for public sector schemes and suggested that this was adopted for training purposes by the Pension Fund Committee. He noted that there were two such toolkits, with the first being more appropriate for private sector schemes. In relation to this the Treasurer stated that the training would include the public sector scheme toolkit, and would also incorporate important elements of the other toolkit referred to. Details would be provided to Members accordingly

- ◆ Noting the Pension Board's policy in terms of training, which was compulsory for Pension Board Members, the Chairman of the Pension Board stated that it had been agreed that knowledge of the toolkits would be covered collectively through the membership of the Board, rather than individually. He highlighted the training undertaken by Pension Board Members and recognised the importance of being able to identify a knowledge and skills base in terms of decisions made. The Treasurer acknowledged the group coverage of skills and knowledge undertaken by the Pension Board, but suggested that each Member of the Pension Fund Committee would need to undertake the necessary training as the Committee Members each had a vote on investment and governance issues.
- ◆ The Chairman emphasised the new direction that the Committee would need to take following the implementation of pooling arrangements and for Members to be appropriately trained to undertake those duties.
- ◆ Members expressed their disappointment in relation to the position going forward in terms of no longer having meetings with Fund Managers to consider investments, as that responsibility would be moving over to the Pool.
- ◆ It was asked whether there would be a Training Policy for the Pool. In response the Treasurer stated that officers in the Pool had a Training Policy, but did not face the same issues as the Pension Fund Committee and emphasised that the Training Policy would be designed to ensure that Members had the appropriate skills and knowledge to undertake the duties required of them. Members emphasised that it should be ensured that Councillors were not discouraged from taking a position on the Pension Fund Committee through the requirements of the Training Policy, however, it was recognised that there was a public perception that training should be in place for Members in respect of their service to the Committee.
- ◆ The Committee's financial consultants, AON Hewitt, stated that they would be happy to provide support for Members undertaking the various training modules identified.
- ◆ The Treasurer stated that, should Members agree to adopt the policy, the most relevant toolkit modules would be developed into a cohesive training programme, which would require a commitment from Members to it being completed.

#### **Resolved -**

- (i) That the Training Policy for the Fund be approved.
- (ii) That the adoption of the CIPFA Code of Practice and the CIPFA Knowledge and Skills Framework be agreed.

- (iii) That the circulation of the CIPFA Knowledge and Skills Framework, to all Committee Members, allowing them to assess their own knowledge and skills, annually, be agreed.
- (iv) That the Training Policy be referred to the Pension Board for their consideration.

## **82. Performance of the Fund's Portfolio**

Considered -

The report of the Treasurer reporting the investment performance of the overall Fund and of the individual Fund Managers for the period up to 30 June 2018.

The report indicated that the absolute overall return for the quarter (+5.8%) was above the customised benchmark for the Fund (+4.1%) by 1.7%.

The 12 month absolute rolling return was +12%, +5.1% above the customised benchmark of 6.9%.

The report provided details of individual Fund Managers' performance in respect of the following asset classes:-

- ◆ Overseas equities
- ◆ Global equities
- ◆ UK equities
- ◆ Fixed income
- ◆ Property
- ◆ Diversified growth funds
- ◆ Private debt
- ◆ Insurance linked securities

Details relating to risk indicators, solvency, re-balancing and proxy voting were also provided.

The Fund's investment consultants, AON Hewitt, produced an analysis of the performance of the Fund during the quarter and the following issues were highlighted:-

- ◆ The quarter had been very positive in terms of investments, with an increase of £190m, raising the asset value of the Fund to £3.5bn (there had been subsequent increases during the present quarter with the value of the Fund being £3.6bn currently).
- ◆ The majority of asset classes had shown a positive performance during the quarter with only slight negatives for GARS and bonds.
- ◆ The funding level had risen from 107% to 110%.
- ◆ There had been strong performances from Baillie Gifford, Veritas and Newton.
- ◆ Updates were provided in terms of manager news for L&G and Hermes. It was noted that the issues raised did not suggest a movement away from those investments.
- ◆ It was emphasised that the Fund remained over committed in terms of its Investment Strategy towards equities (60.4% with a benchmark of 52%). In

view of that AON Hewitt were recommending that a re-balancing of asset allocations be undertaken to ensure that the strategic target was being met, accordingly.

A discussion of the report was undertaken and the following issues and points were raised:-

- ◆ Concern was raised that despite the excellent performance of some of the Fund Managers, the investments in those would need to be reduced to meet the equities' asset allocation in line with the Investment Strategy. The continued excellent delivery by Baillie Gifford, well above the benchmark, on a continuing basis was highlighted. Concern was also expressed that the pooling arrangements may not bring as much benefit to the investment position, as the current arrangements for global equities and reducing those investments, at this time, could be detrimental to the Fund.
- ◆ It was noted that an Investment Strategy workshop would be taking place on the day following this meeting and the investment consultants stated that they would obtain appropriate information to discuss the issues raised in respect of the performance of Baillie Gifford and the need to move the equities asset allocation towards the appropriate benchmark. Further discussions on that matter could take place at the workshop.
- ◆ The Chairman noted that the Customer Relationship Manager for BCPP would also be attending for discussions and issues in relation to the investments, going forward, could be discussed with him.
- ◆ Members acknowledged the excellent performance of a number of Fund Managers during the quarter reported and the unprecedented funding position that had resulted. It was recognised that there was a need to de-risk, however, this was at odds with the inner feelings in relation to wanting the Fund to grow further. The Treasurer understood the issues raised by Members and emphasised that holding onto the current position, by de-risking, was what was being sought, but he emphasised that it was important that the Investment Strategy did not begin to "coast" as that would quickly lead to a deterioration in the funding position. It was again stated that the matter would be discussed in detail at the forthcoming Investment Strategy workshop.

#### **Resolved -**

- (i) That the investment performance of the Fund for the period ending 30 June 2018 be noted; and
- (ii) That further consideration be given to the re-balancing of the equity portfolio.

### **83. Pooling Arrangements**

Considered -

The report of the Treasurer updating Members on progress towards the Government's announced proposals to pool the assets of LGPS Funds.

Issues outlined included:-

- ◆ The most recent Joint Committee meeting had been held on 10 July 2018.

- ◆ Details of the proposed timetable for the transition of Funds to the Pool over the upcoming months were outlined. It was noted that, to be included in the initial transition into each sub-fund, a decision to invest would be required during the quarter before the sub-fund launch. The PFC would be provided with due diligence information for each sub-fund allowing a decision, in principle, to invest in the sub-fund to be undertaken.
- ◆ It was expected that the NYPF would transfer into the global equity sub-funds and a decision in relation to that would be considered at a forthcoming meeting.
- ◆ It was noted that the Customer Relationship Manager from BCPP would be meeting with Members at the forthcoming Investment Strategy workshop and at future meetings of the Committee. Members would be able to discuss pooling developments with him at those events.
- ◆ The Annual BCPP Conference was due to take place in Leeds on 8 and 9 November 2018 and Members were invited to inform the Treasurer if they wished to attend.
- ◆ Issues around the staffing structure for BCPP were discussed and Members suggested that the development of the structure should continue to be monitored.

**Resolved -**

That the report be noted.

**84. Pension Board Annual Report**

Considered -

The report of the Treasurer detailing the Annual Report of the Pension Board.

The Chair of the Pension Board stated that the terms of reference for the Pension Board required that an Annual Report was submitted to the Administering Authority each year. The process required the report to be presented to the Pension Fund Committee, and then to the Executive and full Council.

Members were asked to note the report and were invited to provide feedback.

**Resolved -**

That the Annual Report of the Pension Board 2017/18 be noted.

**85. Pension Board - Draft Minutes of the Meeting held on 19 July 2018**

Considered -

The draft Minutes of the Pension Board held on 19 July 2018.

The Chair of the Pension Board highlighted the following significant issues that had been discussed at that meeting:-

- ◆ Internal Audit reports - a detailed discussion had been undertaken in relation to Veritau reports that had been submitted to the meeting in relation to Pension Fund governance arrangements, Pension Fund income, Pension Fund expenditure and the 2018/19 draft Internal Audit Plan.

- ◆ Governance arrangements for the Pool - Members of the Board were seeking details in relation to the governance arrangements that would be in place for the Pool and details of those were still awaited.
- ◆ Efforts were being made to identify an appropriate representative to fill the current vacancy for an employer representative on the Pension Board. It was noted that there was likely to also be a vacancy for a Scheme Member representative shortly, however, that position needed verifying before the vacancy was advertised.

**Resolved -**

That the minutes be noted.

The meeting concluded at 11.55 am.

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# North Yorkshire County Council

## Pension Fund Committee

Minutes of the Meeting held on 31 October 2018 at County Hall, Northallerton commencing at 11.00 a.m.

### Present:-

County Councillors John Weighell OBE (Chairman), John Blackie, Michael Chambers MBE, Patrick Mulligan, Helen Swiers and Angus Thompson.

Councillor Chris Steward (as substitute for Councillor Ian Gillies) - City of York Council.

Councillor Jim Clark - North Yorkshire District Councils.

### In attendance:-

David Booth, Chief Investment Officer (CIO) and Andrew Stone, Customer Relationship Manager (CRM), Border and Coast Pensions Partnership Ltd

Fund Advisors: Louis-Paul Hill and Robert Shepherd (AON Hewitt, Investment Consultant) and Leslie Robb (Investment Advisor)

Apologies were received from County Councillor Cliff Lunn and Councillor Ian Gillies (City of York Council).

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

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### 86. Declarations of Interest

Whilst it was not a declaration of interest, as such, in the interests of transparency, Councillor John Weighell advised that, *with effect from 7<sup>th</sup> November 2018*, he would become a Member of the Board of Border and Coast Pensions Partnership Ltd (BCPP). From that date he would need to formally declare this interest.

### 87. Public Questions or Statements

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

### 88. Investment Strategy Implementation

Considered –

A report by the Treasurer on the potential global and UK equity investments with BCPP.

The report outlined the options available, which included the option to continue to hold funds with current managers, until a suitable Fund became available.

The Treasurer stressed that the Committee was not being asked to make a decision at this stage; the intention of today's meeting was to provide Members with some of the information that could help inform subsequent decisions.

In response to a question from a Member, the Treasurer confirmed that responsibility for the Pension Fund's Investment Strategy would continue to reside with this Committee. The intention was that BCPP would instruct Fund Managers to deliver. Therefore, the Committee needed to ensure that its decisions on the selection of any sub-funds were in accordance with the Pension Fund's Investment Strategy.

A wide-ranging presentation was then made by Daniel Booth, CIO and Andrew Stone, CRM at BCPP, which provided the Committee with further information on the equity options available within BCPP and the sub-funds being established for these.

The presentation covered the following areas:-

#### An Overview of the BCPP Investment Team Structure

A brief overview of the resource and experience of the BCPP Team was provided.

#### UK Listed Equity Alpha Fund (External Fund)

Daniel ran through the way in which the Fund had been constructed and the external managers that had been appointed – UBS, Baillie Gifford and Janus Henderson.

#### BCPP Global Equity Fund

Daniel outlined the intended structure and approach that had been taken in developing the global equity offering. Members had expressed concern that much of the success of the North Yorkshire Pension Fund investments had predominantly been down to the performance of its unconstrained Fund Managers who had a growth style. Daniel explained that the approach being taken by BCPP was to achieve a target return of either +1% or +2% but the Fund would be structured by having a blend of different Fund Managers with different styles and there would be allocations to unconstrained Fund Managers with a growth style. The exact split and complementarity had not yet been established and that would be finally determined as part of the procurement.

It was noted that the offering from BCPP appeared to satisfy the majority of the 12 Pension Funds within BCPP, but Members reiterated that BCPP needed to deliver sub-funds that were consistent with all 12 Pension Fund Committees' Investment Strategies.

#### UK Listed Equity Fund (Internal Fund)

Daniel ran through the Team that handled the internally managed UK Fund and the relative returns of those Teams when they had operated for South Yorkshire and East Riding. This presented the Committee with some further information to consider whether this, or the UK External Fund, represented an attractive proposition for holding UK listed equities.

#### Alternative Assets

Daniel explained that Mark Lyon would attend the Committee on 22 November to present the BCPP approach to Alternatives. Daniel explained that his background was as an alternatives specialist and he would be happy to provide more information after 22 November if that was helpful.

Louis-Paul Hill, from AON Hewitt, Investment Consultant, advised that the Committee was very interested in an early identification of some alternative investments as part of a wider de-risking strategy, given the Fund's funding level. Daniel undertook to feed this back to BCPP and give the issue further thought.

Daniel and Andrew Stone responded to a number of further questions/points of clarification from Members covering each of the elements of their presentation.

Daniel expressed his willingness to come to the North Yorkshire Pension Fund Committee again whenever that would prove to be helpful as he recognised the importance of global equities for the North Yorkshire Pension Fund.

Louis-Paul Hill felt that the report to Committee on 22 November should clarify options which, in his view, comprised one or a combination of the following:-

- The Global Equities Sub-Fund outlined in the BCPP presentation
- BCPP internally managed overseas equities
- Passive management
- Retain some or all of the existing Fund Managers

The Treasurer cautioned that, in seeking to de-risk, it was important not to, inadvertently, increase risk exposure by holding back some unconstrained equity holdings, whilst investing in a blended equity portfolio, such as that set out by BCPP.

The Chairman, on behalf of the Committee, thanked Daniel Booth and Andrew Stone for their thorough presentation and for responding to the Committee's questions, which he said had been very helpful.

At this stage, Daniel Booth and Andrew Stone left the meeting.

The Treasurer referred to the Session scheduled for 23 November 2018 between Members of the Committee and AON. He suggested that, logistically, it would be sensible to bring this forward by one day and hold it on the same day as the next meeting of the Committee on 22 November.

The Treasurer was also asked to consider whether the timeline for the proposed launch of the BCPP Overseas Equities Fund in July 2019 was achievable through further discussions with BCPP.

#### **Resolved -**

- a) That it be noted further due diligence information will be provided on each sub-fund as and when necessary.
- b) That the Session scheduled for the Committee with AON on Friday 23 November be brought forward by one day, so it be held on the same day as the next meeting of the Committee - Thursday 22 November.
- c) That options relating to UK equities be further considered and proposals brought to the next Committee meeting on 22 November.
- d) That the first substantive Item on the Agenda for the meeting of the Committee on 22<sup>nd</sup> November 2018 be on the transitioning of assets into BCPP, in particular Equities and Alternative Assets and that it be noted Mark Lyon, Head of the Overseas Equities Team at BCPP, will be attending the meeting to provide further detail.
- e) That a report be made to the next meeting setting out all of the options with their associated advantages and in relation to potential investment in global equity investments.

- f) That any other business, scheduled for the meeting on 22 November, that is not time-critical, be considered, instead, at the following meeting on 21 February 2019.

The meeting concluded at 3.15 p.m.

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## North Yorkshire County Council

## Pension Fund Committee

22 November 2018

## Administration Report

## Report of the Treasurer

**1. Purpose of the Report**

- 1.1. To provide Members with information relating to the administration of the Fund over the year to date and to provide an update on key issues and initiatives which impact the administration team.

**2. Admission Agreements & New Academies**

- 2.1. The latest position relating to Admission Agreements and schools converting to academy status in the year are shown in **Appendix 1**. We have received a total of 14 new admissions and academies and completed 5 since the last update. The numbers in progress have increased.

**3. Administration****3.1. Membership Statistics**

Membership Category	At 30/06/2018	+/- Change (%)	At 30/09/2018
Active	32,337	-0.23	32,263
Deferred	36,374	+0.47	36,545
Pensioner (incl spouse & dependant members)	21,848	+1.29	22,130
<b>Total</b>	<b>90,559</b>		<b>90,938</b>

The number of deferred members is increasing as we clear the outstanding work and establish what benefits members are entitled to. As we progress through clearing the outstanding work a more accurate membership position is being established.

**3.2. Throughput Statistics**

- Period from 1 July 2018 to 30 September 2018

Casetype	Cases Outstanding at Start	New Cases	Cases Closed	Cases Outstanding at End
Transfer In quotes	9	52	55	6
Transfer Out quotes	16	149	143	22
Employer estimates	19	87	97	9
Employee estimates	21	190	178	33
Retirement quotes	59	625	623	61
Preserved benefits	200	781	718	263
Death in payment or in service	29	146	139	36
Refunds	76	905	926	55
Actual retirement procedure	84	519	469	134
Interfund transfers	38	147	134	51
Aggregate member records	101	193	208	86
Process GMP	146	3	14	135
Others	70	187	167	90
<b>Total Cases</b>	<b>868</b>	<b>3984</b>	<b>3871</b>	<b>981</b>

- We saw an increase in leaver notifications in September as the staff turnover in schools was processed for August.
- Alongside the above cases the Pensions team also handled 4,805 phone calls (average 94 per day) and 2,471 emails received via the Pensions Inbox (average 38 per day) in the quarter to 30 September 2018.
- The weekly focussed work days continue and are proving successful in driving down the volume of outstanding work.

### 3.3. Performance Statistics

- The performance figures for the period 1 July 2018 to 30 September 2018 are as follows:

Performance Indicator	Target in period	Achieved
Measured work achieved within target	98%	89%
Customers surveyed ranking service good or excellent	94%	88%
Increase numbers of registered self-service users by 700 per quarter	700	1,189

- High work volumes and high demand within the team continue to impact our ability to meet the agreed performance indicator for work achieved within target. The administration team continue to focus on reducing the outstanding work and focusing on ensuring the day to day business as usual work is being processed within agreed timescales. We continue to chase employers on a regular basis for all outstanding queries.

### 3.4. Commendations and Complaints

- This quarter the following commendations and complaints were received:

#### Commendations

Date	Number	Summary
Jul 2018	2	Excellent service
Aug 2018	4	Helpful staff
Sept 2018	2	Help and support of staff

#### Complaints

Date	Number	Summary
Jul 2018	1	Administration - Incorrect retirement option provided to member
	1	Regulatory - Benefits automatically combined
Aug 2018	2	Administration - Incorrect retirement option provided to member
	1	- Member unhappy we hadn't updated his wife's name
	1	Regulatory - Member unhappy that only benefit available is a refund
Sept 2018	3	Administration - Incorrect retirement option provided to member
		- Member accusing us of stealing benefits
		- Lack of response to an enquiry
	1	IHER appeal

- The complaint categories are:
  1. Administration - these can relate to errors in calculations, delays in processing and making payment of benefits.
  2. Regulatory - these relate to a complaint where regulations prevent the member being able to do what they want to.
  3. Ill Health Early Retirement appeal - these are where members have been declined for early retirement on the grounds of ill health and are appealing the decision through the Internal Disputes Resolution Procedure.



## Lessons Learned

Having reviewed the complaints received in the period it is apparent that errors are occurring in the retirement process relating to the need to know which sections of the current letters need to be included or not. Work has recommenced on developing the new 'smart' letters as a priority.

### 3.5. Annual Benefit Statements 2018

- 143 out of 144 files have been received, posted to records and queries raised.
- There was a major issue with the City of York return this year with nearly 50% of members' data being incorrect. We are liaising with them to obtain a revised file but this has meant we have been unable to issue benefit statements for these members yet.
- The latest position regarding the issuing of annual benefit statements as at 30 September 2018 is:
  - Actives: issued 26,413 out of 30,563 = 86.42% (nearly half of those unissued are CYC members)
  - Deferreds: issued 36,153 out of 36,242 = 99.76%
- Work continues on producing statements as we correct data or calculation errors.

## 4. Admissions and Terminations Policy

- 4.1. The draft Admissions and Terminations Policy is attached as **Appendix 2**. The content of the document has been fundamentally changed to bring it in line with new regulation and processes of the Fund. The document has been reviewed by the Fund's Actuary, Aon, and legal advisors, Ward Hadaway to ensure that it complies with regulation. Members are asked to approve the policy. Following approval, employers will be consulted on the updated policy.
- 4.2. This policy does not currently include scheduled employers, for example, academies; this will be included in a later iteration of the policy and will be brought back to PFC for approval at a later date.

## 5. Issues and Initiatives

### 5.1. GMP Reconciliation

- The GMP reconciliation project continues with files of queries being worked on when received from ITM.
- Processing has continued in this period with progress being made on the GMP value reconciliation. This has resulted in 1,000 records requiring manual checking. This work is being undertaken within the pension team.
- Work continues in moving towards the rectification phase.
- Current position:

Status	Reconciled	Unreconciled
Active	22,621	4,452
Deferred	29,891	3,395
Pensioner	16,248	3,400
Other admin	1,026	2,515
HMRC		4,040
<b>Totals</b>	<b>69,786</b>	<b>17,802</b>

### 5.2. Breaches Policy & Log

- Included at **Appendix 3** is the North Yorkshire Pension Fund's Breaches Log for review. There is one new entry relating to the 2018 annual benefit statement exercise. This has been reviewed by the Pension Board at their meeting in October and their response is included.

### 5.3. **Efficiency Initiatives**

- The letters project continues to make progress with new letters being created to support changes to processes. Progress was impacted by the upgrade of the administration system but issues are now resolved and work can recommence.

### 5.4. **Administration System**

- The contract for the existing administration software expires on 31 December 2019 with an option to extend for a further two years.
- A full review of our requirements is underway in order to inform whether the current software and its provider is capable of meeting our needs now and in the future.
- The review will not be completed in time for the contract expiry so it has been agreed we will be triggering at least one year of the two year extension.

## 6. **Member Training**

- 6.1. The Member Training Record showing the training undertaken over the year to 30 September 2018 is attached as **Appendix 4**.
- 6.2. Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 5**. Please contact Adam Tennant (01609 535916 or email [adam.tennant@northyorks.gov.uk](mailto:adam.tennant@northyorks.gov.uk)) for further information or to reserve a place on an event.

## 7. **Meeting Timetable**

- 7.1. The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 6**.

## 8. **Recommendations**

- 8.1. Members to note the contents of the report.
- 8.2. Members to approve the Admissions and Terminations Policy (**Appendix 2**).
- 8.3. Members to note the contents of the Breaches Log (**Appendix 3**).

Gary Fielding  
Treasurer of North Yorkshire Pension Fund  
NYCC  
County Hall  
Northallerton

14 November 2018

Name of School	Local Education Authority	Multi Academy Trust (MAT) Name	Conversion Date	Current Position
Tadcaster East Community Primary School	NYCC	Ebor Academy Trust	1.9.2018	Completed
Baldersby St James CoE Voluntary Controlled Primary School	NYCC deemed to be employer	Hope Learning Trust	1.9.2018	Completed
Stakesby Community Primary School	NYCC	Enquire Learning Trust	1.9.2018	Completed
Braeburn Primary & Nursery School	NYCC	Ebor Academy Trust	1.10.2018	Completed
Archbishop of York's CoE Junior School	COYC	South York Multi Academy Trust	1.11.2018	Completed
Ainderby Steeple CoE Primary School	NYCC	Dales Academies Trust	1.1.2019	Delayed from 1.9.2018. In progress
Danesgate Community School	COYC	South York Multi Academy Trust	1.1.2019	Will be progressed nearer the time
George Pindar School	NYCC	Hope Learning Trust	1.1.2019	Will be progressed nearer the time
Graham School	NYCC	Hope Learning Trust	1.1.2019	Will be progressed nearer the time
Stillington Primary School	NYCC	Hope Learning Trust	1.2.2019	Will be progressed nearer the time
Northallerton School & Sixth Form College	NYCC	Arete Learning Trust	1.4.2019	Will be progressed nearer the time
Sherburn High School	NYCC	Star Multi Academy Trust	1.8.2019	Will be progressed nearer the time
Naburn CoE Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.10.2018. Will be progressed nearer the time
Lord Deramore's Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.11.2018. Will be progressed nearer the time
Fishergate Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.12.2018. Will be progressed nearer the time
Escrick CoE VC Primary School	NYCC	South York Multi Academy Trust	Not known	Will be progressed when conversion date known
St Oswald's CE Primary School	COYC	South York Multi Academy Trust	Not known	Will be progressed when conversion date known
Elvington CoE Primary School	COYC	South York Multi Academy Trust	Not known	Actuarial calculations provided based on conversion date of 1.7.18. Conversion delayed, new date not yet known

<b>Name of School</b>	<b>Local Education Authority</b>	<b>Multi Academy Trust (MAT) Name</b>	<b>Conversion Date</b>	<b>Current Position</b>
Langton Primary School	NYCC	Evolution Schools Learning Trust	Not known	Original conversion date was 1.10.2016 but MAT advised it has been delayed. New date not yet known.
Thirsk School & Sixth Form College	NYCC	Arete Learning Trust	Not known	Original conversion date was 1.2.2018. MAT has advised no definite agreement in place at present

**Admission Bodies –16 ‘in progress’**

<b>Name of Employer</b>	<b>Name of Contractor</b>	<b>Staff Transfer Date</b>	<b>Current Position</b>
Outwood Primary Academy Greystone (Outwood Grange Academies Trust)	ISS Mediclean	5.11.2018	In progress – transfer of catering staff
NYCC – catering contracts at: Bedale CoE Primary School Colburn Community Primary School Masham CE (VC) Primary School	Mellors Limited	1.9.2018	Not advised of transfers until October! Now in progress
NYCC - catering contracts at: Spofforth CoE Primary School Follifoot CoE Primary School Goldsborough CoE Primary School Sicklinghall Community Primary School	P&A Catering	TBC	Not advised of transfers until October! Now in progress
NYCC - catering contract at: Water Street Community Primary School	Dolce Limited	TBC	Not advised of transfer until October! Now in progress
Baldersby St James CoE Primary Academy (Hope Learning Trust)	Absolutely Catering Limited (part of the CH&Co Catering Group)	5.11.2018	In progress - transfer of catering staff
Tockwith CoE Primary Academy	Hutchison Catering Limited	19.1.2018	In progress - transfer of catering staff
City of York Council	York Mind	1.1.2019	Draft admission agreement provided
City of York Council (Haxby Hall Care Home)	Yorkare Homes Ltd	Early Jan 2019	Future service rate provided, admission agreement will be progressed nearer the time
Barlby High School (Hope Learning Trust)	Hutchison Catering Ltd	1.4.2019	Will be progressed nearer the time
City of York Council libraries	Contract not yet awarded	1.4.2019	Future service rate provided, admission agreement will be progressed nearer the time
Yorkshire Coast Homes			Possible merger with Coast & Country Housing Ltd. Coast & Country Housing Ltd transferred its engagements to YCH on 1.10.2018 and YCH changed its name to Beyond Housing Limited. Waiting to see if a merger goes ahead.

**Exiting Employers – 6**

<b>Name of Employer</b>	<b>Date exited the Fund</b>
Joseph Rowntree Charitable Trust	31.12.17.
Superclean Services Limited	16.7.17
OCS Group UK Limited	Only one member who left 31.3.17 (only told March 18). Exit calculation needed from the actuary once OCS confirm who will pay fees
Be Independent	TUPE transferred back to the City of York Council wef 1.8.18. Exit calculation will be requested once all information has been received from York
York Arts Education (Community Interest Company)	Only two members, last one left 31.3.2018. Exit calculation requested from the actuary
Housing & Care 21	Last member left 31.8.18. NYCC indemnify any exit debt





## North Yorkshire Pension Fund

### Admissions and Terminations Funding Policy



**If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335**

## 1 Introduction

- 1.1 This document details the North Yorkshire Pension Fund's (**Fund**) policy on admissions into the Fund and the methodology for assessment of a deficit or surplus payment on the exit of an employer's participation in the Fund. It supplements the general funding policy of the Fund as set out in the <sup>1</sup>[Funding Strategy Statement \(FSS\)](#).

## 2 Admissions to the Fund

- 2.1 Admission bodies are a specific type of employer under the Regulations that do not automatically qualify for admission into the Local Government Pension Scheme (**Scheme**) and must satisfy certain criteria set out in the Local Government Pension Scheme Regulations 2013 (as amended) (**Regulations**). Admission bodies are required to have an 'admission agreement' with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- 2.2 North Yorkshire County Council (**NYCC**) as the Administering Authority for the Fund will decide which bodies can become an admission body in the Fund. 2.3 The Fund will enter into an admission agreement that is 'open' or 'closed' to new employees depending on the circumstance of the admission. Whether the admission is 'open' or 'closed' is generally at the option of the applicable transferring employer (if any) and admission body, but there might be an impact on the rate of contributions payable.
- 2.4 In general paragraph 1(d) admission bodies will be admitted on a 'fully funded' basis i.e. a funding shortfall will not be passed to the admission body unless the transferring employer requests that a proportion of (or all of) the funding shortfall is passed to the admission body.
- 2.5 All actuarial and legal fees will be recharged to the transferring employer or the admission body. The Administering Authority will ask for confirmation of who is paying the fee before the invoice is issued.

## 3 Subsumption, guarantor or bond requirements for entry

- 3.1 The Regulations require the admission body to carry out (to the satisfaction of the Fund and where applicable the transferring employer) an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body. The Regulations further require that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in a form approved by the Fund with a third party financial services organisation. If for any reason a bond is not desirable the Regulations require that the admission body secures a guarantee in a form acceptable to the Fund.

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<sup>1</sup> The FSS can be found on the Fund's website at [www.nypf.org.uk](http://www.nypf.org.uk) > Pension Fund / Investments > Policies and Strategies.

- 3.2 Whilst each application is assessed on its own merits under the above criteria, the Administering Authority wishes to limit the risk to the Fund and to other employers arising from any proposed admission. The Administering Authority's expectation is that in the substantial majority of all admissions it will require the admission body to provide either a qualifying bond or guarantee. The Administering Authority further considers that the costs inherent in the provision of a third party bond by the admission body is sufficient reason why it may not be desirable for the admission body to secure a bond. Therefore, the Administering Authority will in most cases be prepared to accept that the admission instead proceeds on the basis of a guarantor being offered. This is most often the transferring employer.
- 3.3 Further, when considering applications for admission body status the Administering Authority's clear preference is that there should be a subsumption commitment from a suitable Scheme employer (as well as a guarantor from within the Fund). However, where there is no suitable party willing to give a subsumption commitment and/ or where there is no suitable and willing guarantor, the Administering Authority will still consider applications on a case-by-case basis.
- 3.4 A subsumption commitment means that a Scheme employer in the Fund (usually the transferring employer) agrees that they will take on responsibility for the future funding of the liabilities of the admission body once they have exited the Fund, and (where relevant) the admission body has paid any exit payment as determined by the actuary.
- 3.5 A guarantor provides a commitment to meet any obligation or liability of the admission body under the admission agreement.
- 3.6 The guarantor must be a party permitted to give such a guarantee under the Regulations and must be acceptable to the Administering Authority. Usually, this is the transferring employer.
- 3.7 The Administering Authority will, if it deems appropriate, accept an admission where there is no guarantee or subsumption commitment offered. This acceptance may be subject to additional conditions. Such conditions will often include the following:
- the Fund's actuary will be asked to use the low risk funding target or the ongoing orphan funding target to assess contribution requirements; and/or
  - the admission body must have a bond or indemnity from an appropriate third party in place. Any bond amount will be subject to review on a regular basis in line with the Regulations; and
  - the admission body may be subject to any other requirements, such as monitoring specific factors, as the Administering Authority may decide.

- 3.8 Some relevant factors that the Administering Authority may consider when deciding whether to apply any of the conditions above, in the absence of a guarantor or subsumption commitment, are:
- uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
  - if the admission body has an expected limited lifespan of participation in the Fund;
  - the general trading risk of the proposed admission body and their financial record;
  - the average age of employees to be admitted and whether the admission is closed to new joiners.

#### **Admission bodies formerly known as Transferee Admission Bodies (TABs)**

- 3.9 The most frequent category of admission body is those admitted under paragraph 1(d)(i) of Part 3 to Schedule 2 of the Regulations, namely that the proposed admission body is providing (or will provide) a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement.
- 3.10 The settlement of commercial terms between the transferring employer and the proposed admission body (including any mitigations that might be offered to the proposed admission body in respect of the usual costs of participation as an employer in the Scheme) are a commercial matter which the Administering Authority will not be involved in.
- 3.11 Deficit recovery periods for these admission bodies will be set in line with the Fund's general policy as set out in the FSS.

#### **Admission bodies formerly known as Community Admission Bodies (CABs)**

- 3.12 Where a body believes that it is eligible for admission other than under paragraph 1(d)(i) of Part 3 to Schedule 2 of the Regulations and requests admission into the Fund, the Administering Authority will consider each application on a case-by-case basis.

#### **Town and Parish Councils**

- 3.13 New town and parish councils entering the Fund will be treated as follows:
- If there is a subsumption commitment from a suitable Scheme employer then the participation will be approved with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements.
  - If there is no subsumption commitment from a suitable Scheme employer then the town or parish council must pre-fund for termination with contribution requirements assessed using the low risk funding target or ongoing orphan funding target.

- 3.14 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

### **Grouped bodies**

- 3.15 The Fund groups the following types of employers for setting contribution rates.
- Grouped Scheduled Bodies (Town and Parish Councils admitted prior to 1 April 2008, Drainage and Burial Boards).
  - Local Management of Schools (LMS) Pools (NYCC LMS pool and the City of York Council (CoYC) LMS pool) admitted prior to 1 April 2019.
- 3.16 The LMS pool refers to the grouping of a number of transferee admission bodies relating to catering and cleaning contracts within schools who were admitted to the Fund prior to 1 April 2019. Employers in the LMS pool pay the same aggregate total contribution rate as that payable by NYCC or the CoYC depending on which pool they are in.
- 3.17 At each triennial valuation, the actuary will pool together the assets and liabilities of the council with the other employers within the appropriate LMS pool to determine the employer contribution rate.

## **4 Employer contributions and funding targets**

- 4.1 The Fund's actuary will calculate the employer contributions payable from the start of the admission agreement.
- 4.2 These will consist of the future service rate (FSR) or primary contribution rate and additional (secondary) contributions required to remove any funding shortfall. Where the admission body transfers on a fully funded basis (i.e. the level of notional assets is set to be equal to the full value of the transferring liabilities using the appropriate funding target described below) then the initial contribution rate will be equal to the FSR. This would generally be the case in an outsourcing of a service or function from a Scheme employer.
- 4.3 The FSR is net of employee contributions but includes an allowance for the lump sum death benefit payable on death in service and administration costs.
- 4.4 The actuary will also calculate the funding position of the admission body at the commencement date. This shows the notional assets attributable to the admission body, along with the value of liabilities using the appropriate funding target. This is needed even when the admission body starts fully funded since any accounting figures or calculations at future triennial valuations will use the assets and liabilities at commencement as their starting point. In some cases the asset transfer may need to be re-calculated if the commencement date or data on transferring members is different to that used by the actuary in their initial calculations.
- 4.5 If the transferring employer is providing a subsumption commitment, the subsumption funding target will be used by the actuary when calculating the FSR and the value of liabilities. The low risk funding target can be used where explicitly requested by the transferring employer. The appropriate funding target to be adopted depends on what will happen to the liabilities of the admission body once the contract ends or it has otherwise exited the Fund (e.g. when the last active member has left).

## **Subsumption funding target**

- 4.6 This approach can be used where the admission body has a 'subsumption commitment' from a suitable Scheme employer (usually the transferring employer). It is used to calculate the initial assets allocated to the admission body and its contributions as well as for the exit valuation (updated to allow for financial market conditions at the exit date).
- 4.7 The assumptions used under the scheduled body / subsumption funding target assume investment in assets that are the same as the long term investment strategy of the Fund as a whole.
- 4.8 Therefore the potential outperformance over low risk investment in government bonds (gilts) is factored in, giving a lower contribution rate but also there is exposure to the volatility of equity based investments and the risk of the expected outperformance not being achieved and the impact on the contributions.
- 4.9 This funding target gives a lower contribution rate but less certainty that the liabilities are being fully covered and can therefore lead to volatility in the FSR over the life of the admission agreement and increases the risk of a shortfall or surplus emerging over the period of participation of the admission body in the Fund. This approach results in the same assumptions being used to set contributions for the admission body as apply to the Scheme employer letting the contract (although the assumptions are updated to allow for financial market conditions at the calculation date, whether that is the date of commencement or exit).

## **Ongoing orphan funding target**

- 4.10 This approach is used where the transferring employer is not prepared to offer a subsumption commitment in relation to the admission body. This means that no employer exists in the Fund that would be prepared to take on future responsibility of the liabilities of the admission body once the admission body has exited the Fund.
- 4.11 On the exit of the admission body, its liabilities will become 'orphan liabilities' in the Fund. This means that should a shortfall arise in respect of these liabilities after the admission body has exited the Fund, all remaining employers in the Fund would be required to pay additional contributions to pay off this shortfall.
- 4.12 In that case, the exit valuation of the admission body would be carried out on the low risk funding target in order to protect the other employers in the Fund. This assumes that after the exit of the admission body the Administering Authority would wish to back the orphan liabilities with low risk investments such as government bonds.
- 4.13 The assumptions used under the ongoing orphan funding target are broadly designed to target the low risk funding target at exit of the admission body but reflect the fact that exit of the admission body will occur at some point in the future and allow for the possibility of the expected return on government bonds changing before the exit date.
- 4.14 Prior to the exit date it is still assumed that the assets of the admission body are invested in line with the long term investment strategy of the Fund as a whole and this is reflected in the "in-service" discount rate adopted as part of the ongoing orphan funding target.

- 4.15 This funding target would generally result in a higher initial contribution rate than if a subsumption commitment existed (where the subsumption funding target would be adopted), but a lower initial contribution rate than if the low risk funding target is adopted (see below), although unlike the matched approach described below investment risk underlying the Fund's investment strategy is retained under this approach.

### **Low risk funding target**

- 4.16 This approach is used to reduce the risk of an uncertain and potentially large shortfall being due to the Fund at the exit of the admission body.
- 4.17 The low risk approach assumes a notional investment in government bonds for the admission body. Under this approach the investment risk is substantially reduced and it is expected that the assets and liabilities of the admission body would move broadly in line with either other. It does not eliminate investment risk and other funding risks remain, but it gives more certainty that the employer rate is providing funding to 'match' the liabilities. However it gives a substantially higher contribution rate as no allowance for any expected outperformance of the Fund's assets over the low risk funding target is factored in.

## **5 Termination of an employer**

### **Exit events**

- 5.1 In accordance with Regulation 64 the LGPS Regulations 2013, when an employer (including an admission body) leaves the Fund, an exit valuation is carried out by the Fund's actuary to determine the level of any surplus or deficit in the outgoing employer's share of the Fund. All actuarial and legal fees relating to the exit will be passed on to the exiting employer unless a prior agreement is in place with the transferring employer.
- 5.2 There are a number of events that will trigger an exit:
- when a contract comes to an end;
  - when a contract is terminated early;
  - when the employer no longer has any active members in the Fund;
  - when the admission body is in breach of its obligations under the admission agreement, or the admission agreement is otherwise terminated by one of the parties;
  - the insolvency, winding up or liquidation of the admission body
  - the withdrawal of approval by HMRC to continue as a Scheme employer; or
  - the admission body fails to pay any sums due in a timely manner.
- 5.3 When an admission agreement comes to an end or a scheduled body exits the Fund, any active employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

## **Basis of exit valuations**

- 5.4 An exit valuation is carried out to value the liabilities of the employer at the date of exit. The basis used to calculate the liabilities depends on the circumstances of the exit and in particular who takes responsibility of any future liabilities. The Fund's policy is outlined below; however each exit will be assessed on a case by case basis.
- 5.5 If the employer has a subsumption commitment in place from a suitable Scheme employer within the Fund, the subsumption funding target will be used as the basis of the exit valuation. If the transferring employer requested that the low risk funding target was adopted on admission to the Fund, the same funding target will be used as the basis of the exit valuation. The subsuming employer will, following any termination payment made by the employer, be responsible for any future liabilities that arise in relation to the former employees of the exiting employer. Any liabilities formally attributable to the exiting employer will be assessed at each Triennial Valuation and the subsuming employer's contribution rates will be adjusted to reflect this.
- 5.6 For all other exiting employers where there is no subsumption commitment in place, the Fund's policy is to use the low risk funding target as the basis of the exit calculation. This is to protect the other employers in the Fund who will become responsible for any future 'orphan liabilities' that arise in relation to the former employees of the exiting employer post exit.

### **Grouped Scheduled Bodies - Town and Parish Councils admitted prior to 31 March 2008**

- 5.7 On termination of participation within the grouped scheduled bodies, the exit valuation is based on a simplified share of the group deficit amount, which is calculated on a subsumption funding target. This involves calculating the notional deficit share, as at the last triennial valuation, based on the proportion of payroll that body has within the group. An adjustment to the date of exit will normally be made in line with the assumptions adopted as at the last triennial valuation unless the actuary and Administering Authority consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit. Any liability that cannot be reclaimed from the exiting employer will be underwritten by the group and not all employers in the Fund.
- 5.8 Following the termination of the grouped body, any residual assets and liabilities will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the Fund as a whole.

### **Grouped Bodies - LMS Pools admitted prior to 1 April 2019**

- 5.9 On termination of an admission body within the LMS pool, a termination valuation will generally be calculated on a scheduled body funding target. The assets and liabilities relating to the active employees will, assuming there is a subsumption commitment in place in the admission agreement relating to that admission body, be subsumed by NYCC or the CoYC depending on which pool they are in. If there is no subsumption commitment in place, the parties will be offered the opportunity to put one in place on exit. If this option is not taken then the low risk funding target will be used to calculate any exit debt.



## **Notification of termination**

- 5.10 In many cases termination of an admission agreement can be predicted, for example, because the admission body wishes to terminate their contract. In this case admission bodies are required to notify the Fund of their intention as soon as possible. The Fund requires a minimum of 3 months' written notice for early termination of an admission agreement.
- 5.11 Where termination is disclosed in advance or in the opinion of the Administering Authority there are circumstances which make it likely that an employer will become an exiting employer, the Fund may request a revised certificate from the Actuary that specifies the amount that the rates should be adjusted by prior to exit in line with Regulation 64(4) of the Regulations. This will allow the Fund to address any shortfall or surplus over a period of time rather than requesting a single lump sum payment on exit.

## **Payment of exit debt**

- 5.12 If the Fund actuary has calculated a deficit at the exit date the exiting employer is liable for payment. The Fund will usually require a lump sum payment from the exiting employer in the first instance. Where an exit payment cannot be met in full or in part by the exiting employer the Fund will attempt to recover any outstanding payment from a bond or alternative indemnity that may be in place.
- 5.13 Following the use of any bonds or indemnities (if any), any remaining debt will be recovered in a lump sum payment from the guarantor (if there is one).
- 5.14 If there is no guarantor any outstanding debt will be recovered from any related employer in the case of a Schedule 2, Part 3, 1(d)(i) body. The Fund may request a lump sum payment or it may be agreed, if the related employer is a contributing employer of the Fund, that the rates and adjustment certificate be revised to allow for the recovery of the remaining debt over a reasonable period of time, as determined by the Fund.
- 5.15 In any other case the debt will be subsumed by all other employers in the Fund. The rates and adjustment certificate for all contributing employers will be revised to allow for the recovery of any remaining exit debt over a reasonable period of time, determined by the Fund, at the next triennial valuation following exit.
- 5.16 Any lump sum payments will be required within 30 days following the issue of the revised rates and adjustment certificate showing the exit payment due unless another period is specified by the Fund. Any late payments will incur charges in accordance with the Fund's Charging Policy.
- 5.17 In exceptional circumstances the Fund may consider allowing an exiting employer to pay an exit payment over an agreed period of time, where it is not considered to pose a material risk to the solvency of the Fund.

## **Suspending payment of exit amounts**

- 5.18 At the absolute discretion of the Administering Authority, a suspension notice may be awarded to an exiting employer under Regulation 64(2A) of the Regulations. This can be for a period of up to three years after the exit date (the maximum period permitted by the Regulations).

- 5.19 Any application for the Administering Authority to grant a suspension notice will normally only be considered if the following criteria apply;
- The employer can provide evidence that it is likely to admit one or more new active members to the Fund within the period of the suspension notice
  - The employer is not a 'closed' Admitted Body (no new active members are permitted to join the Fund).
  - Any application for the Administering Authority to grant a suspension notice is made within three months of the exit date.
- 5.20 The Administering Authority reserves the right to withdraw a suspension notice if the terms of the agreement to award a suspension notice are not being upheld by the employer.
- 5.21 If a suspension notice is awarded, the exit valuation will be deferred until the earlier of
- the end of suspension period, or;
  - the point at which the suspension notice is withdrawn (for any reason).
- 5.22 If one or more new active members are admitted to the Fund the employer's full participation in the Fund will resume.
- 5.23 During the period of any suspension notice, the employer must continue to make contributions to the Fund as certified in the rates and adjustments certificate.

### **Surplus on Exit**

- 5.24 If the actuary has calculated a surplus at the exit date, Regulation 64(2ZA) requires the Administering Authority to pay the surplus to the exiting employer within three months of exit or, such longer time as the administering authority and the exiting employer may agree.
- 5.25 If the scheme employer and admission body wish to change the default position on the payment of an exit credit then they should include suitable provisions in any service agreement between themselves. The Regulations require the Administering Authority to pay the exit credit to the exiting employer in all circumstances and regardless of whether this might be considered fair in light of the relative risk and cost exposure of the parties.
- | 5.26 When an exit credit payment is made, no further payments are due from the Administering Authority in respect of any surplus assets relating to the benefits of any current or former employees of the exiting employer.

## Appendix 3

[illegible]

Date	Title or Nature of Course	Blackie J	Mulligan P	Swiers H	Weighell J	Clark J	Portlock D	M Chambers	A Solloway	A Thompson	C Lunn	I Gillies	C Steward	Unison (Vacancy)	Unison (Vacancy)
17 November 2017	Investment Strategy Workshop		✓	✓	✓	✓	✓	✓							
6-8 December 2017	LAPFF Annual Conference, Bournemouth	✓													
20 December 2017	Pension Workshop	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓				
28 February - 2 March 2018	LGC Investment Seminar, Carden Park, Cheshire	✓													
7-9 March 2018	PLSA Investment Conference, Edinburgh	✓	✓	✓	✓	✓									
21-23 May 2018	PLSA Conference					✓									
25 May 2018	Property Debt Workshop	✓	✓	✓	✓	✓	✓	✓			✓				
18 June 2018	CIPFA Pension Board						✓								
27 June 2018	CIPFA Pension Board Annual Event						✓								

## UPCOMING TRAINING AVAILABLE TO MEMBERS

<b>Provider</b>	<b>Course / Conference Title</b>	<b>Date(s)</b>	<b>Location</b>	<b>Themes / Subjects Covered</b>
LAPFF	LAPFF Annual Conference	5-7 December 2018	The Hilton, Bournemouth	'Back to the Future' – Conference to include: Financial regulations, Directors' remuneration, Precarious work, Gender pay gap, Workplace Diversity and Climate change.
LGPS	Annual LGPS Governance Conference	17-18 Jan 2019	Bristol	'Clarity in Confusion' Conference to include: Investment costs, Responsible Investment and Climate Risk, Infrastructure investment, Fund valuation, Upcoming scheme consultations, Investment spotlight, Legal update
LGC	Investment Seminar	28 February - 1 March 2019	Carden Park Cheshire	Keeping the LGPS affordable and accessible through austerity and uncertain times. Content tbc.
PLSA	Investment Conference	6-8 March 2019	EICC Edinburgh	The conference is aimed at trustees, chief investment officers, pension scheme managers, asset managers and investment specialists. The forward looking programme focusses on the major trends and events affecting UK investors and markets. The conference consists of plenary and specialist stream sessions focusing on Defined Benefit, Defined Contribution, Investment & Governance as well as a new stream on Asset Allocation.

PLSA	Local Authority Conference	13-15 May 2019	De Vere Water Park Hotel Gloucestershire	<p>A specialist pension event for Local Authorities, designed to look at the ever-changing Local Authority Pension Scheme.</p> <p>The conference includes keynote speeches, specialist breakout sessions, a Learning Zone, fringe meeting, a welcome drinks reception, conference dinner and exhibitions</p>
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## PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2018 AND 2019

Meeting Date	Time & Venue	Event	Fund Managers
22 November 2018	10am, Brierley Room	Pension Fund Committee	
21 February 2019	10am, Brierley Room	Pension Fund Committee	
22 February 2019	10am, TBC	Pension Fund Committee	2 Managers TBC
23 May 2019	10am, Brierley Room	Pension Fund Committee	
24 May 2019	10am, TBC	Pension Fund Committee	2 Managers TBC
4 July 2019	10am, Brierley Room	Pension Fund Committee	
12 September 2019	10am, Brierley Room	Pension Fund Committee	
13 September 2019	10am, TBC	Pension Fund Committee	2 Managers TBC
21 November 2019	10am, Brierley Room	Pension Fund Committee	
22 November 2019	10am, TBC	Pension Fund Committee	2 Managers TBC

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

22 NOVEMBER 2018

## BUDGET / STATISTICS

## Report of the Treasurer

**1.0 PURPOSE OF THE REPORT**

## 1.1 To report on the following:

- |   |                 |
|---|-----------------|
| (a) 2018/19 budget- Cost of running the Fund    | (see section 2) |
| (b) the 3 year cashflow projection for the Fund | (see section 3) |

**2.0 2018/19 BUDGET- COST OF RUNNING THE FUND**

- 2.1 The latest forecast outturn position against the 2018/19 budget is attached as **Appendix 1**. The running costs of the Fund are currently forecast to be £1.2m over budget at £23.8m. This revision in the forecast is due to an increase in the estimated management fees for the year. This reflects an increase in the value of the Fund and additional transaction cost information provided by Fund Managers.

**3.0 3 YEAR CASHFLOW PROJECTION**

- 3.1 The cash position of the Fund is presented in **Appendix 2**. The table shows the projected cashflows of the Fund over the next 3 years. This cashflow includes the contribution income and benefits payable, the main inflow and outflow of the Fund, which will determine when the Fund will turn cashflow negative. In addition to this it also includes all other items that go through the bank account, for example, any costs of administering the scheme; this provides a more accurate prediction of the cash position of the Fund.
- 3.2 The estimated cashflow for the Fund in 2018/19 is a £8.6m deficit; this has increased from last quarter where a £6.8m deficit was reported. This deficit is mainly due to the £13m prepayment of deficit contributions relating to 2018/19 in 2017/18. The increase in deficit between quarters is due to a decrease in the forecasted contributions cashflow which has resulted from a further decrease in active members and an increase in benefit payments due to an increase in pensioner numbers.
- 3.3 There is also an estimated deficit in 2019/20, again due to the prepayment of deficit contributions in 2017/18. This deficit is slightly higher than the deficit in 2018/19 due to the anticipated increase in pension benefit payments.



- 3.4 In 2020/21 the Fund is estimated to be back in a small surplus cash position as it is assumed that deficits will be paid in the year by all employers. It is important to note that the 2020/21 cashflow estimates are assuming that employer contribution rates will remain the same following the 2019 Triennial Valuation so will be subject to change. Any changes in management fees due to pooling have also not been taken into account in the cashflow estimate.

#### 4.0 **RECOMMENDATIONS**

- 4.1 Members to note the contents of the report.

GARY FIELDING  
Treasurer to North Yorkshire Pension Fund  
NYCC  
County Hall  
Northallerton

14 November 2018

## North Yorkshire Pension Fund - 2018/2019 Budget - Cost of Running the Pension Fund

	Expenditure to 30.09.2018	Revised Budget 2018/2019 £k	Forecast 2018/2019 £k	Variance £k	Comments
<b>EXPENDITURE</b>					
<b>Admin Expenses</b>					
Finance and Central Services inc ESS	200	500	500	0	
Pensions Administration Team	420	850	850	0	
GMP Reconciliation programme	79	100	100	0	
Other Admin Expenses	130	210	210	0	Main cost is £140K Heywood Ltd (Altair)
	<b>829</b>	<b>1,660</b>	<b>1,660</b>	<b>0</b>	
<b>Oversight and Governance</b>					
Actuarial Fees	10	30	30	0	18/19 Gross budget £110k, £80k recharged to employers
Custodian Fees	62	130	130	0	
Consultants Fees	71	140	140	0	
Pooling Implementation Costs	269	269	269	0	All expenditure in for the implementation costs
Pooling Operational Charge	171	503	503	0	remaining £332k operational costs due in Q3
Other O & G Expenses	22	110	110	0	Budget £915k in 19/20, £725k in 20/21
	<b>605</b>	<b>1,182</b>	<b>1,182</b>	<b>0</b>	
<b>Investment Fees</b>					
Investment Management Base Fee invoiced	2,613	4,800	5,000	200	
Performance Fees invoiced	2,789	5,000	5,000	0	
Investment base fees deducted from Fund	5,440	10,000	11,000	1,000	
	<b>10,842</b>	<b>19,800</b>	<b>21,000</b>	<b>1,200</b>	
<b>TOTAL</b>	<b>12,276</b>	<b>22,642</b>	<b>23,842</b>	<b>1,200</b>	

## North Yorkshire Pension Fund three year cash flow forecast

	Cash-flow 2018/2019 £k	Cash-flow 2019/2020 £k	Cash-flow 2020/2021 £k	Comments
<b>EXPENDITURE</b>				
<b>Benefits</b>				
Pensions	86,300	90,130	94,130	5% increase in pensioner numbers, 2% initial estimate
Lump Sums	24,300	24,300	24,300	
	<b>110,600</b>	<b>114,430</b>	<b>118,430</b>	
<b>Payments to and on account of leavers</b>				
Transfers out	9,000	9,000	9,000	
Refunds to leavers	500	500	500	
	<b>9,500</b>	<b>9,500</b>	<b>9,500</b>	
<b>TOTAL EXPENDITURE</b>	<b>120,100</b>	<b>123,930</b>	<b>127,930</b>	
<b>INCOME</b>				
Employer and Employee Contributions	111,000	113,250	128,545	Drop in the number of active members
Transfers IN (from other schemes)	12,000	12,000	12,000	
Investment Income	1,320	1,320	1,320	Hermes income and Barclays interest income
<b>TOTAL INCOME</b>	<b>124,320</b>	<b>126,570</b>	<b>141,865</b>	
<b>SURPLUS (DEFICIT)</b>	<b>4,220</b>	<b>2,640</b>	<b>13,935</b>	
<b>Add cost of administering the pension fund</b>	<b>23,842</b>	<b>23,902</b>	<b>23,729</b>	
<b>Less Management Fees charged direct to the fund</b>	<b>(11,000)</b>	<b>(11,000)</b>	<b>(11,000)</b>	
<b>NET SURPLUS (DEFICIT)</b>	<b>(8,622)</b>	<b>(10,262)</b>	<b>1,206</b>	The 20/21 cashflow includes 1 year past service deficit

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

22 NOVEMBER 2018

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER  
ENDING 30 SEPTEMBER 2018

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To report the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 30 September 2018.

**2.0 PERFORMANCE REPORT**

- 2.1 The Fund Analysis & Performance Report produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter ending 30 September 2018.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance levels over time.

**3.0 PERFORMANCE OF THE FUND**

- 3.1 The absolute overall return for the quarter, +1.6%, was below the customised benchmark for the Fund, +2.2%, by -0.6%.
- 3.2 The 12 month absolute rolling return was +10.5%, +2.8% above the customised benchmark of +7.7%.
- 3.3 Absolute and relative returns over the rolling years to each of the last four quarter ends were as follows:

Quarter End	Absolute %	Relative %
30 September 2018	+10.5	+2.8
30 June 2018	+12.0	+5.1
31 March 2018	+8.4	+5.0
31 December 2017	+17.0	+6.4

3.4 The performance of the various managers against their benchmarks for the quarter ended 30 September 2018 is detailed in **Section 4** below. This performance is measured on a time-weighted basis and expressed as a +/- variation to their benchmark.

3.5 The Appendices used in this report have been designed to present a fuller picture of recent investment performance.

**Appendix 1** Fund Manager Performance over the three years to 30 September 2018 in absolute percentage terms from a starting point of “100”

**Appendix 2** Solvency graph – this shows the key Asset, Liability and Deficit figures in a simple graphical format

**Appendix 3** Solvency position (in % and £ terms) since the 2004 Triennial Valuation; this Appendix also shows in absolute terms the +/- in the value of assets and liabilities of the Fund

3.6 The separate report of the Investment Consultant explains developments in the financial markets and in NYPF’s investments, and also look ahead over the short, medium and longer term.

#### 4.0 **FUND MANAGER PERFORMANCE**

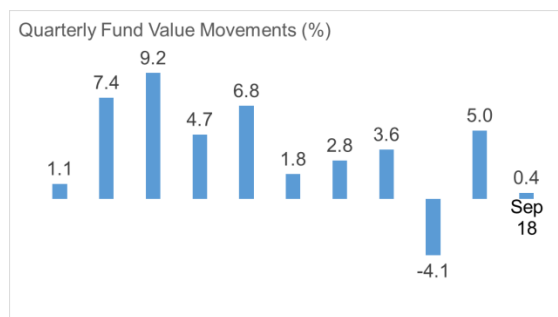
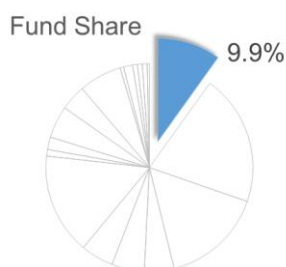
4.1 In monetary terms, the absolute return of +1.6% in the quarter increased the invested value of the Fund by £58.8m. This quarter, 10 managers/funds outperformed their respective benchmarks and 7 underperformed against their respective benchmarks. At the end of the September 2018 quarter the value of the Fund was £340m above the value at the end of September 2017, an increase of 10.5%

4.2 The table below shows the performance of the Fund’s investments against the relevant benchmarks as at 30 September 2018. Performance targets set by the Fund are measured on a rolling 3 year basis and shown in the ‘3 Years’ section of the table.

Manager	Quarter		One Year		3 Years		
	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Target (%)
<b>Overseas Equities</b>							
Fidelity	4.8	4.6	9.2	9.3	17.7	18.2	20.2
<b>Global Equities</b>							
Baillie Gifford GA	3.1	5.7	15.3	13.4	23.6	19.8	21.8
Baillie Gifford LTGG	1.7	5.7	29.2	13.4	32.9	19.8	22.8
Dodge & Cox	4.8	5.7	6.2	13.5	19.4	19.9	19.9
Veritas	8.0	5.7	12.5	13.5	19.9	19.9	7.9 - 11.9
<b>UK Equities</b>							
Standard Life	-4.9	-2.0	2.7	4.3	11.4	10.5	13.5
<b>Fixed Income</b>							
M&G	-1.8	-2.1	1.9	1.5	8.7	7.9	8.4
<b>Property</b>							
Hermes	2.7	1.7	11.2	9.5	9.6	7.7	8.2
LGIM Property	1.1	1.6	7.0	8.8	6.1	7.1	7.1
Threadneedle	1.3	1.6	9.0	8.8	7.4	7.1	8.1 - 8.6
<b>Diversified Growth</b>							
Newton Diversified	2.0	0.2	2.0	0.5	3.2	0.4	4.5
Standard Life Diversified	0.2	0.2	-1.2	0.5	-0.4	0.4	5.5
<b>Private Debt</b>							
Bluebay	-1.9	2.1	6.5	8.3			
Permira Credit	1.5	1.5	5.9	6.0			
<b>Insurance Linked Securities</b>							
Leadenhall DI	0.3	0.0					
Leadenhall NA	2.1	0.2					
Leadenhall RE	0.2	0.2					

4.3 In the following section, the Fund's investments are analysed under the relevant asset heading with diagrams showing the size of the investment in relation to the total assets of the Fund as at 30 September 2018 and the quarterly increase or decrease in value of each investment up until 30 September 2018.

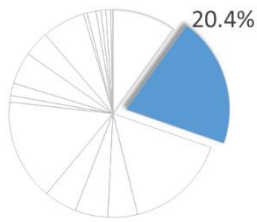
#### 4.4 Overseas Equities



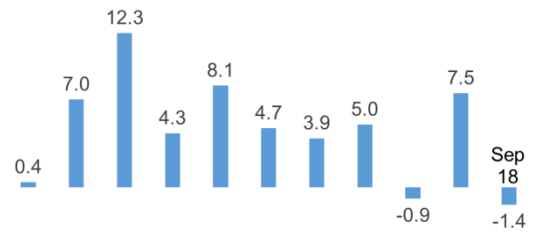
**Fidelity** returned +4.8% for the quarter against a benchmark return of +4.6% in the quarter. Relative performance over the year to September 2018 was -0.1% against the benchmark of +9.3%. Over the last 5 years the manager has exceeded the benchmark by +0.5% p.a.

## 4.5 Global Equities

Fund Share

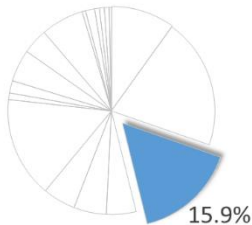


Quarterly Fund Value Movements (%)

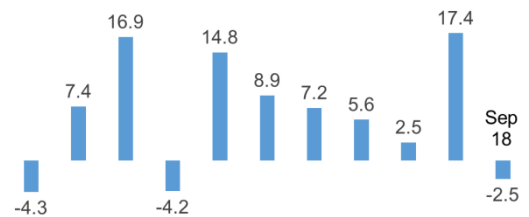


- 4.6 The Global Alpha fund managed by **Baillie Gifford** returned +3.1% for the quarter against a benchmark return of +5.7%. Relative performance over the longer term was +1.9% over 1 year and +3.8% annually over 5 years. Since inception in 2006, the Fund has outperformed the FTSE All World by 2.6%.

Fund Share

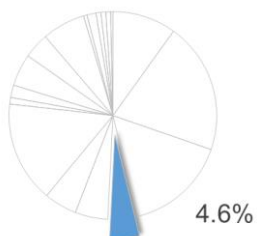


Quarterly Fund Value Movements (%)

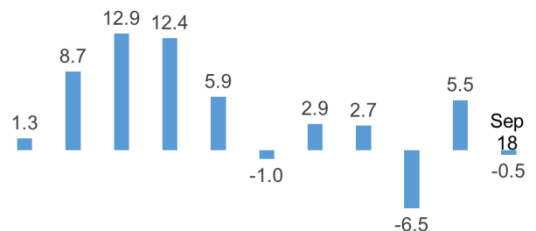


- 4.7 The **Baillie Gifford LTGG** fund gave a return of +1.7% in the quarter against a benchmark of +5.7% resulting in a relative return of -4.0%. Over the past year the performance has well exceeded the benchmark giving a relative return of +15.8% and overall the relative return for the past five years on an annual basis has been +9.7%.

Fund Share

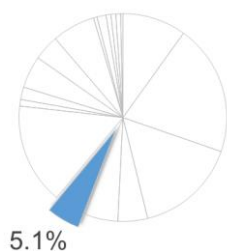


Quarterly Fund Value Movements (%)

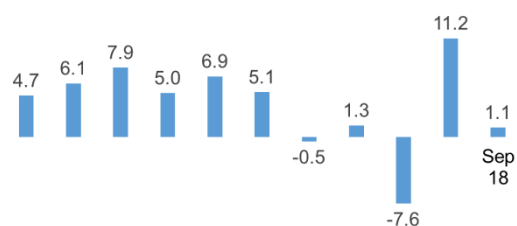


- 4.8 The **Dodge & Cox** Fund gave a relative return of -0.9% for the quarter, with a performance of +4.8% against the benchmark of +5.7%. Annually the relative performance is lower at -7.3% though this improves when looking at the relative return from inception which increases slightly to -1.9%.

Fund Share



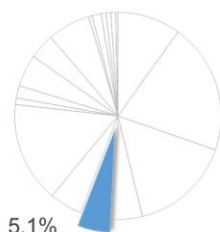
Quarterly Fund Value Movements (%)



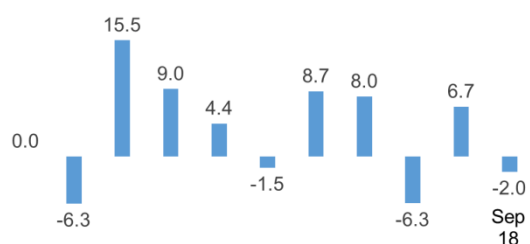
- 4.9 **Veritas** has performed strongly in the quarter with a relative return of + 2.3% against a benchmark of +5.7%. Over the longer term, Veritas has achieved an annual relative performance figure of -1.0% and a relative performance of +1.1% since its inception in April 2015.

#### 4.10 UK Equities

Fund Share



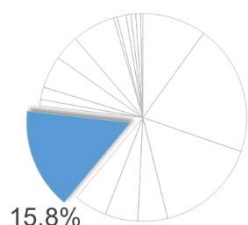
Quarterly Fund Value Movements (%)



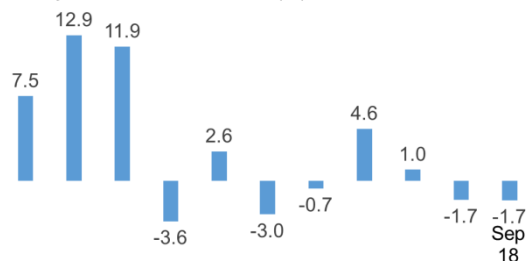
In the last quarter **Standard Life** returned -4.9% against the benchmark of -2.0% giving a relative return of -2.9% Over the longer term they have produced relative returns of -1.6% for the year and -1.5% over a five year period.

#### 4.11 Fixed Income

Fund Share



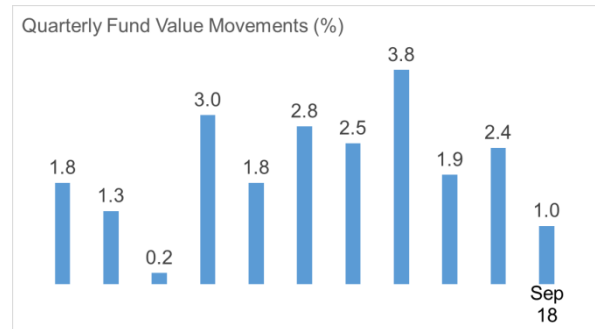
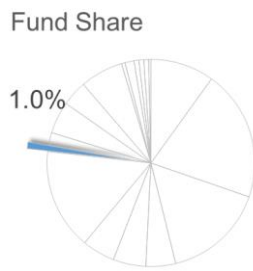
Quarterly Fund Value Movements (%)



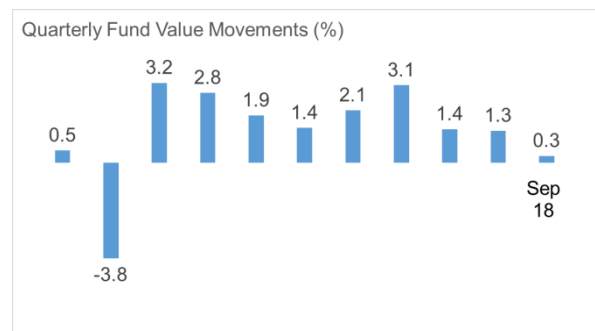
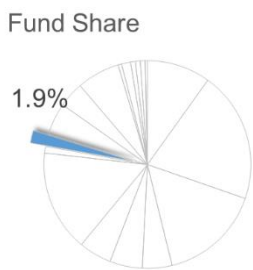
The investment in Gilts with **M&G** outperformed against the liability matching benchmark of -2.1% for the quarter to September 2018 by +0.3%. Performance for the year was +0.4% above the benchmark return of +1.5% and annualised performance since inception in 2011 was +0.8% above the benchmark of +8.2%.



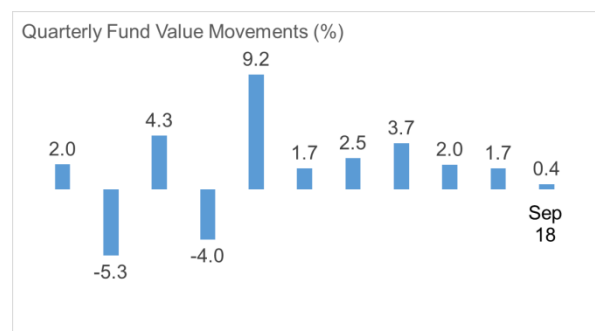
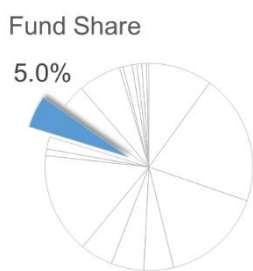
#### 4.12 Property



**Hermes** is showing consistent levels of performance with the relative return for the quarter being +1.0%. This compares with the annual relative performance of +1.7%.

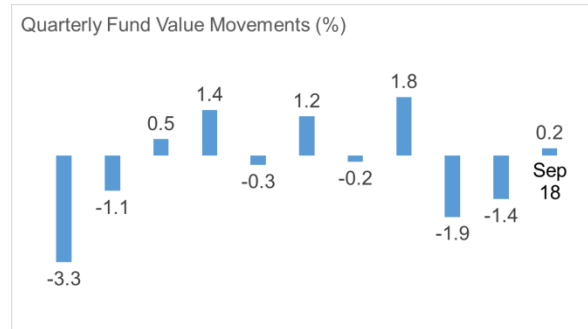
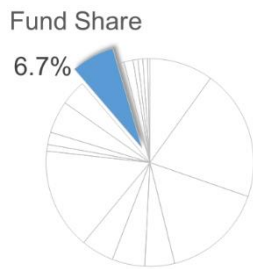


4.13 **Legal & General's** property portfolio has returned +1.1% against the benchmark of +1.6% The 3 year performance is down with a relative return of -1.0% and the 5 year performance up by a relative return of +1.4%.

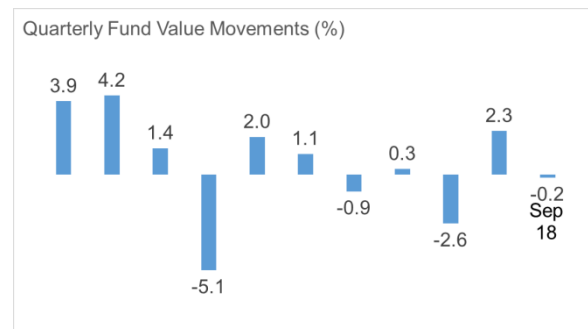
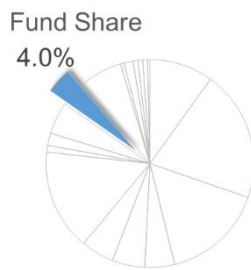


4.14 **Threadneedle** produced a relative return of -0.3% for the quarter and had a one year return of +9.0% against the property index value of +8.8%.

#### 4.15 Diversified Growth Funds

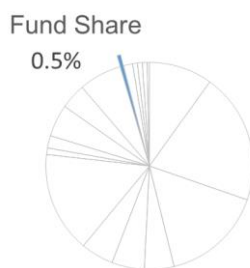


**Standard Life's GARS** fund has produced a relative return for the quarter of +0.1% against a benchmark of +0.2%. The performance since inception is a return of +1.8% against a benchmark of +0.5%. This is however under the target performance of 5.5%. The Fund share above of 6.7% includes £80m in a Treasury Deposit Fund, the true Fund Share for GARS is 4.5%.

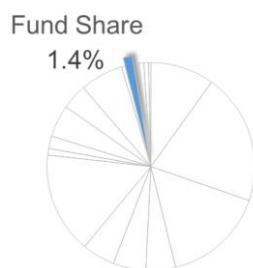


4.16 **Newton Investments** shows a performance of a +1.8% relative return for the quarter and has an overall performance of +2.3% against the +0.5% benchmark since inception. This is however under the target performance of 4.5%.

#### 4.17 Private Debt

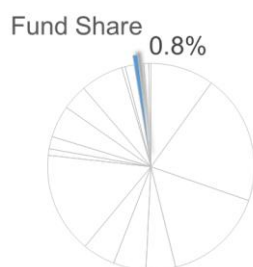


4.18 The **Bluebay** private debt Fund has produced a relative return of -4.0% for the quarter against a benchmark value of +2.1%. The annual performance shows a negative relative performance of -1.8%.

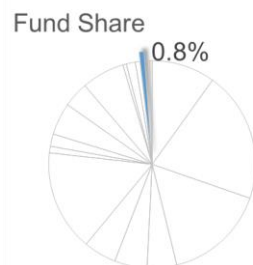


4.19 **Permira** produced a return of +1.5% against the benchmark of 1.5%. Both Private Debt mandates are still in the investment period which makes it difficult to produce meaningful reporting at this stage.

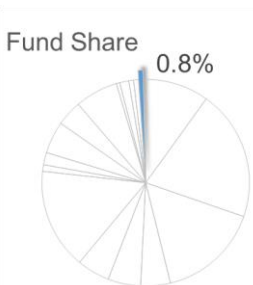
#### 4.20 **Insurance Linked Securities**



4.21 **Leadenhall Diversified** produced a return of +0.3% compared against the benchmark of +0.0%.



4.22 **Leadenhall Natcat Focus** produced a return of +2.1% compared against the benchmark of +0.2%.



4.23 **Leadenhall Remote** produced a return of +0.2% compared against the benchmark of +0.2%.

## 5.0 RISK INDICATORS

- 5.1 The Report includes three long-term risk indicators.
- 5.2 The Fund's annualised **Standard Deviation**, which is a reflection of volatility, was 6.3% for the rolling three year period to 30 September 2018, 0.7% above the benchmark.
- 5.3 The **Sharpe Ratio** is a measure of how well the return compensates an investor relative to the risk taken. A higher Sharpe Ratio reflects a better return for a given level of risk or lower risk for a given level of return. The ratio for the Fund for the rolling three year period to September 2018 was +0.2% above benchmark at 2.1%.
- 5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at September 2018 the figure was 2.8%.
- 5.5 The **Information Ratio** is a measure of excess returns in relation to the benchmark and the consistency of those returns. A high IR could be derived from a high portfolio return, a low benchmark return and a low tracking error. For the period up to September 2018 the ratio for the Fund was +1.0%.

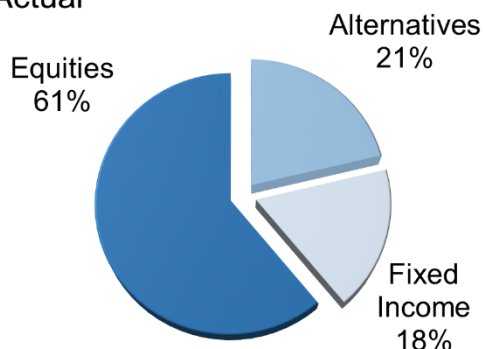
## 6.0 SOLVENCY

- 6.1 The **solvency position** is presented in **Appendices 2 and 3**. As at 30 September 2018 the estimated solvency was 115%. This is a 25 percentage point increase from the solvency figure as at 31 March 2016, calculated by the Actuary during the 2016 Valuation process.
- 6.2 This increase in solvency is primarily due to asset outperformance with Equities being the best performing asset class throughout the period.
- 6.3 The solvency figure does not yet reflect any changes to the investment strategy as part of the recent investment strategy review. Changes in the investment strategy will have an impact on the discount rate used to calculate the funding level as both the volatility and return are taken into account. These anticipated changes in the investment strategy will be reflected in the funding level in a future quarter.

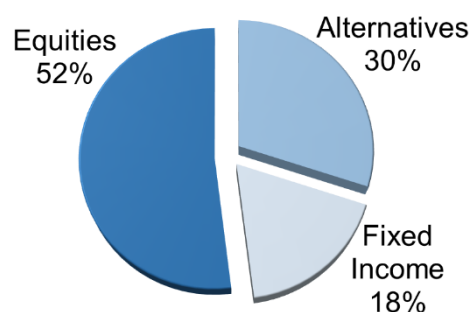
## 7.0 REBALANCING

### 7.1 Asset Allocations as at 30 September 2018

Actual



Target



7.2 This overweight equity position is in part due to property debt allocation that was not transferred into cash until after the quarter end. If this is taken out the remaining equity allocation is 56% against the target of 52%. The alternative allocation will also increase to 26% following the transfer to property debt. The remaining underweight position in alternatives is due to the Fund being 2% underweight in property and around 1.6% underweight in DGFs.

7.3 In the quarter to 30 September 2018, the following rebalancing took place:

- Permira made their 8<sup>th</sup> and 9<sup>th</sup> capital calls totalling £6.5m

## 8.0 PROXY VOTING

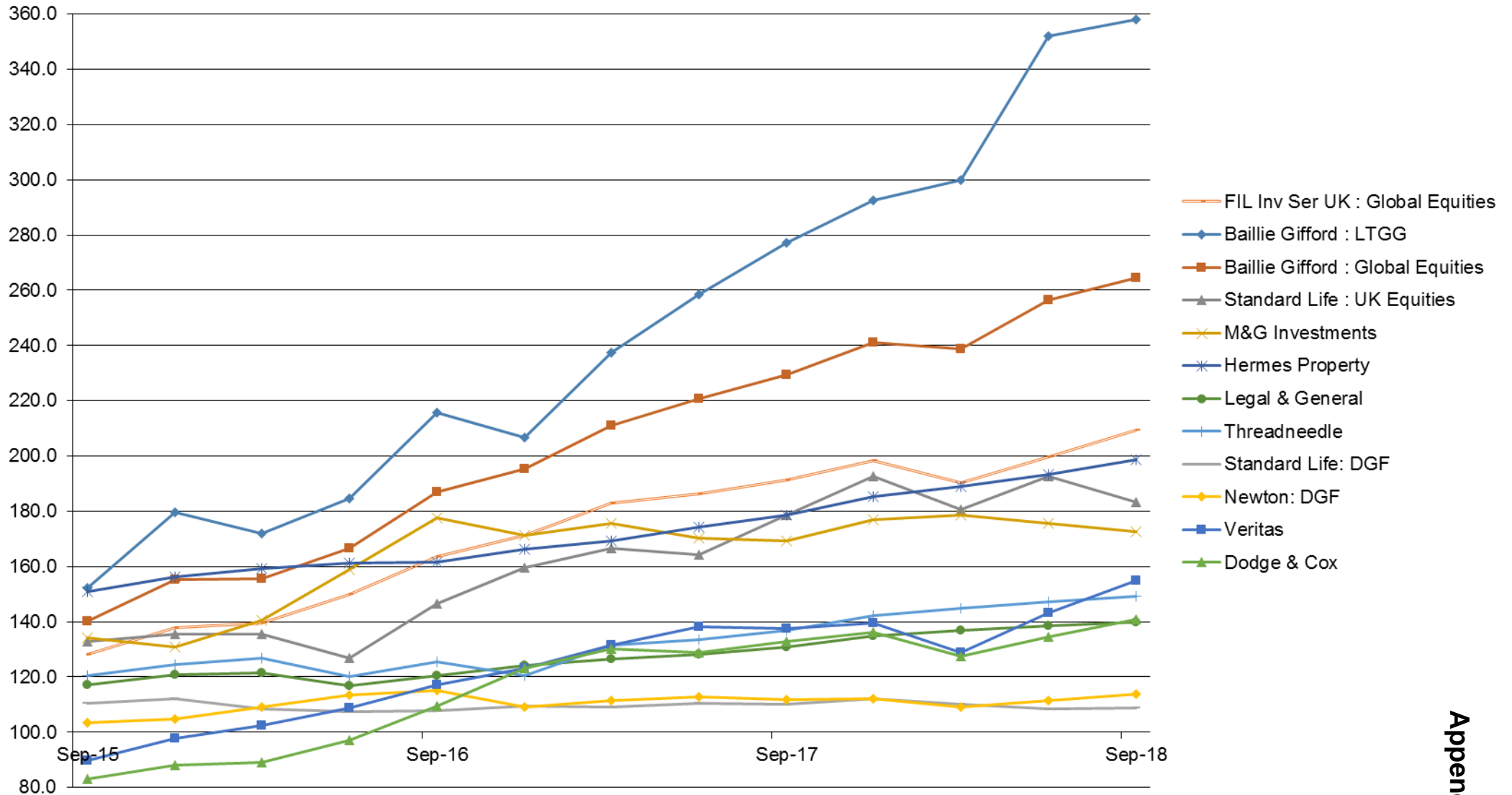
8.1 The report from PIRC is available on request summarising the proxy voting activity in the period June 2018 to September 2018. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings and responses to company engagement.

## 9.0 RECOMMENDATION

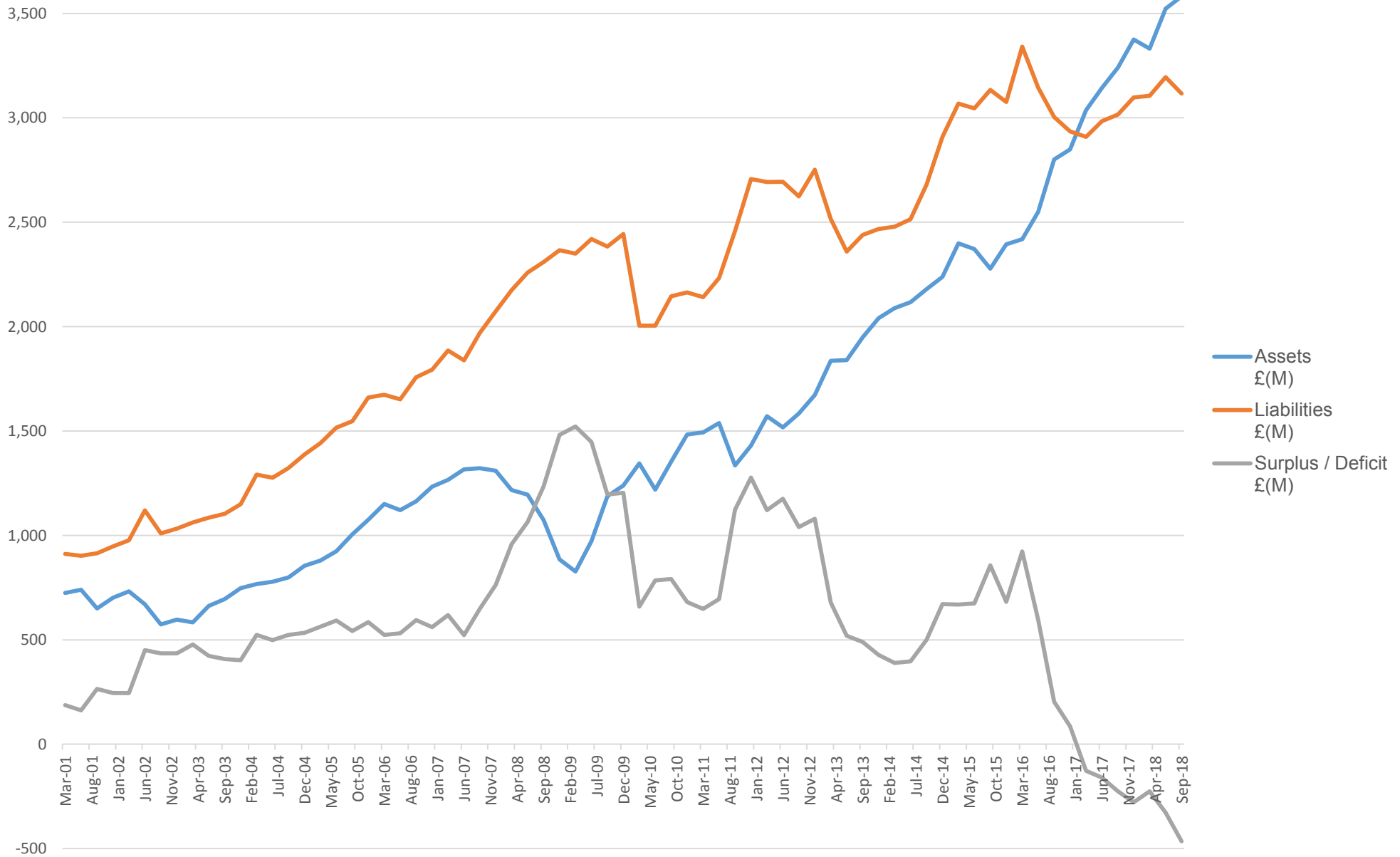
9.1 Members are asked to note the investment performance of the Fund for the period ending 30 September 2018.

GARY FIELDING  
Treasurer to North Yorkshire Pension Fund  
NYCC  
County Hall  
Northallerton  
14 November 2018

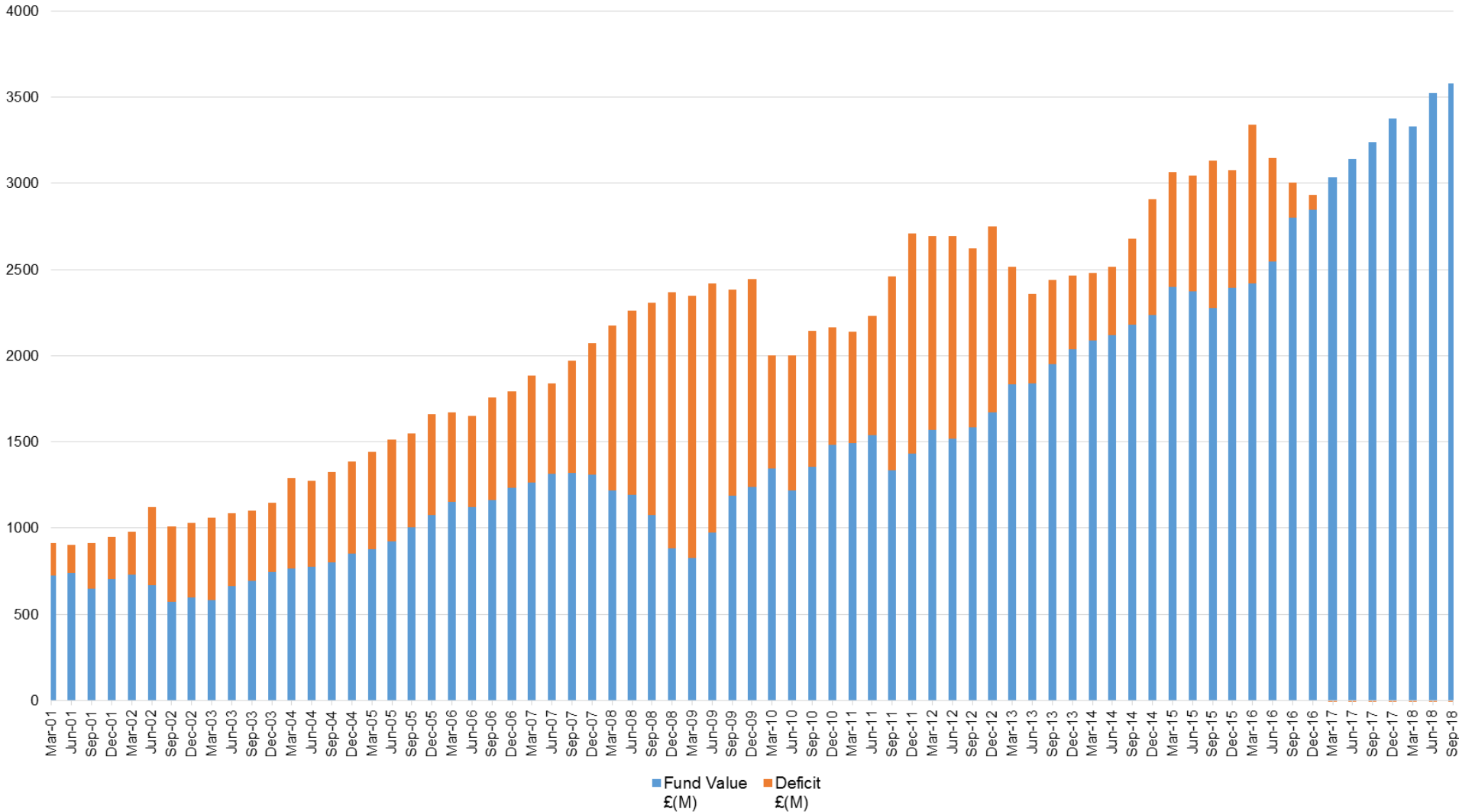
## Investment Manager Performance - Cumulative Absolute Performance 3 years to September 2018



## North Yorkshire Pension Fund - Assets, Liabilities and Deficit



Movement in Assets and Liabilities





Date	Solvency	Deficit £(M)	Fund Value £(M)	FTSE 100	
31 March 2001	79%	187	724	5,634	*
30 June 2001	82%	162	740	5,643	
30 September 2001	71%	265	650	4,903	
31 December 2001	74%	245	702	5,217	
31 March 2002	75%	245	732	5,272	
30 June 2002	60%	450	670	4,656	
30 September 2002	56%	435	574	3,722	
31 December 2002	58%	435	597	3,940	
31 March 2003	55%	478	584	3,613	
30 June 2003	61%	423	662	4,031	
30 September 2003	63%	408	695	4,091	
31 December 2003	65%	402	747	4,477	
31 March 2004	59%	524	767	4,386	*
30 June 2004	61%	498	778	4,464	
30 September 2004	60%	524	799	4,571	
31 December 2004	62%	533	854	4,814	
31 March 2005	61%	563	879	4,894	
30 June 2005	61%	592	924	5,113	
30 September 2005	65%	542	1005	5,478	
31 December 2005	65%	585	1075	5,619	
31 March 2006	69%	523	1150	5,965	
30 June 2006	68%	531	1121	5,833	
30 September 2006	66%	595	1163	5,961	
31 December 2006	69%	561	1233	6,221	
31 March 2007	67%	619	1266	6,308	*
30 June 2007	72%	522	1316	6,608	
30 September 2007	67%	648	1322	6,467	
31 December 2007	63%	763	1310	6,457	
31 March 2008	56%	958	1217	5,702	
30 June 2008	53%	1064	1195	5,625	
30 September 2008	47%	1235	1074	4,902	
31 December 2008	37%	1481	885	4,434	
31 March 2009	35%	1522	827	3,926	
30 June 2009	40%	1447	972	4,249	
30 September 2009	50%	1196	1187	5,134	
31 December 2009	51%	1204	1239	5,413	
31 March 2010	67%	659	1345	5,680	*
30 June 2010	61%	785	1219	4,917	
30 September 2010	63%	791	1354	5,549	
31 December 2010	69%	681	1483	5,900	
31 March 2011	70%	648	1493	5,909	
30 June 2011	69%	695	1538	5,946	
30 September 2011	54%	1123	1335	5,129	
31 December 2011	53%	1277	1430	5,572	
31 March 2012	58%	1121	1571	5,768	
30 June 2012	56%	1176	1517	5,571	
30 September 2012	60%	1040	1584	5,742	
31 December 2012	61%	1079	1672	5,898	
31 March 2013	73%	679	1836	6,412	*
30 June 2013	78%	519	1840	6,215	
30 September 2013	80%	490	1949	6,462	
31 December 2013	83%	427	2040	6,749	
31 March 2014	84%	389	2089	6,598	
30 June 2014	84%	397	2117	6,744	
30 September 2014	81%	500	2179	6,623	
31 December 2014	77%	671	2238	6,566	
31 March 2015	78%	669	2399	6,773	
30 June 2015	78%	674	2371	6,521	
30 September 2015	73%	857	2277	6,062	
31 December 2015	78%	682	2394	6,242	
31 March 2016	72%	923	2418	6,175	*
30 June 2016	81%	596	2549	6,504	
30 September 2016	93%	203	2801	6,899	
31 December 2016	97%	86	2849	7,143	
31 March 2017	104%	-127.2	3036	7,323	
30 June 2017	105%	-160.2	3144	7,313	
30 September 2017	108%	-225.6	3241	7,373	
31 December 2017	109%	-277.7	3375	7,688	
31 March 2018	107%	-226.2	3331	7,057	*
30 June 2018	110%	-327	3522	7,637	
30 September 2018	115%	-464.6	3581	7,510	

\* Triennial valuation

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****22 NOVEMBER 2018****LGPS POOLING ARRANGEMENTS****Report of the Treasurer****1.0 PURPOSE OF REPORT**

- 1.1 To update Members on progress towards the Government's announced proposal to pool the assets of LGPS funds.

**2.0 RECENT EVENTS**

- 2.1 The BCPP Annual Conference was held in Leeds on 8 and 9 November 2018. This was a well-attended event by Partner Funds that covered the following topics: cost effective transition into BCPP, managing risk, UK equities externally managed sub-fund, Partner Fund investment strategies, Responsible investment, governance, forthcoming fund launches and Alternative investments.
- 2.2 The next Joint Committee meeting is to be held on 21 November 2018. A verbal update on this meeting and other BCPP developments will be provided at the meeting by the Chairman and Treasurer.
- 2.3 The key focus is on the setting up of sub-funds and transitioning of funds into the pool. This is covered in detail in Item 3 on the agenda.

**3.0 JOINT COMMITTEE REPRESENTATIVE**

- 3.1 The Chair of the PFC has now been formally appointed as a Shareholder nominated Non-Executive Director on the Board of BCPP. This role has an initial term of 12 months ending on the 1 October 2019. To avoid any potential conflicts of interest, the Chair is required to stand down from the Joint Committee (JC).
- 3.2 Members are therefore asked to consider who will replace the Chair as the JC representative for NYPF and who the new substitute Member will be should the representative not be able to attend any JC meetings.
- 3.3 It is expected that there will be minimal conflicts of interest due to the Chair of the PFC also being on the Board of BCPP, any conflicts will be declared

at the start of each PFC meeting. Members are asked to consider how to deal with any conflicts should they arise.

#### **4.0 Responsible Investment**

- 4.1 The BCPP Responsible Investment Policy and Corporate Governance & Voting guidelines are reviewed annually. The latest revisions of these policies are being taken to the Joint Committee on 21 November 2018 for their views. Following this they will be brought to Committees for their consideration.

#### **5.0 NEXT STEPS**

- 5.1 The next Joint Committee meeting is to be held on 11 March 2019.

#### **6.0 RECOMMENDATION**

- 6.1 Members to note the content of the report and verbal updates provided in the meeting.
- 6.2 Members to consider Joint Committee representation on behalf NYPF.

GARY FIELDING  
Treasurer, North Yorkshire Pension Fund  
NYCC  
14 November 2018

## North Yorkshire County Council

### Pension Board

Minutes of the meeting of the Pension Board held on Thursday 11 October 2018 at County Hall, Northallerton commencing at 10.00 am.

#### **Present:-**

#### **Members of the Board**

David Portlock (Independent Chairman).

#### **Employer Representatives:**

Louise Branford-White (Hambleton District Council) and Councillor Ian Cuthbertson (City of York Council).

#### **Scheme Members:**

Gordon Gresty and Mandy Swithenbank (GMB)

#### **In attendance:-**

County Council Officers: Phillippa Cockerill, Gary Fielding, Jo Foster-Wade, Steve Loach, Ian Morton, Joe Nash and Adam Tennant.

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

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#### **163(a) Apologies for Absence**

Apologies for absence were received from County Councillor Mike Jordan (North Yorkshire County Council) and Simon Purcell (Unison).

#### **163(b) Vacancies - Employer Representative and Scheme Member Representative**

The Chairman reported that, in respect of the vacant position for an Employer Representative, a potential candidate had been identified and an application pack had been provided to that person. It was expected that the application would be returned shortly.

In relation to the vacancy for a Scheme Member representative it was noted that official confirmation of the resignation of the Scheme Member had yet to be received, and as soon as that was in place, an appropriate recruitment process would be undertaken.

#### **Resolved -**

That the issues outlined be noted.

#### **164. Declarations of Interest**

There were no declarations of interest submitted.

#### **165. Public Questions or Statements**

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

The Treasurer of the Pension Fund, Gary Fielding, was able to join the meeting for a limited period. In relation to this the Chairman agreed to re-order the agenda.

#### **166. Pooling**

Considered -

The report of the Treasurer providing Pension Board Members with an update on the progress made towards the LGPS pooling arrangements. The Treasurer of the Fund, Gary Fielding, apologised for Amanda Alderson being unable to be at this meeting due to her being required at the Headquarters of BCPP to discuss the global equities transition, as a client of BCPP, from the North Yorkshire Pension Fund (NYPF) perspective.

He highlighted the following in relation to recent pooling developments:-

- ◆ The process of appointing two non-Executive Directors to the BCPP Board was currently taking place and was subject to the approval of shareholders. If approval was given, it was expected that this would provide the ability to deliver issues from the perspective of the various Pension Funds at Board level.
- ◆ A new Chief Investment Officer was now in post, replacing the original interim appointment.
- ◆ The NYPF had been provided with a Relationship Manager from BCPP, Andrew Stone, who would attend Pension Fund Committee meetings on invite and assist with issues in relation to NYPF's involvement with the pooling arrangements.
- ◆ The NYPF was awaiting clarification of the sub-funds that were to be developed by BCPP and how those would meet the needs of the Pension Fund's Investment Strategy. The Treasurer emphasised that conversations would be taking place with BCPP to ensure that the Investment Strategy was met by those sub-funds as, failure to meet that, could result in a delay in investments being placed within the pooling arrangements. He emphasised that he expected a pragmatic approach from BCPP and awaited to see the details of the global equities sub-fund.
- ◆ It was noted that there were likely to be some external pressures from Government in relation to ensuring investments took place within the Pool, however, unless the needs of the Investment Strategy could be met, then the NYPF would maintain its position in respect of investing within the sub-funds, which was to ensure that the Strategy could be fully met by the offer in place. He noted that all Pension Funds within BCPP had signed a Memorandum of Understanding in terms of investing at the appropriate time, but noted that this was on the proviso that the funding arrangements in place were appropriate

to that Pension Fund. He noted that the de-risking of the Fund, due to the current 110% funding level, could be advantageous in terms of moving Funds over into the pooling arrangements.

- ◆ The move to de-risk the Investment Strategy of the NYPF and the sub-fund offers from the pooling arrangements were discussed and it was expected that a range of suitable funds would be in place, however, it was again emphasised, by the Treasurer, that those would need to be appropriate for the Fund's Strategy and would have to be agreed by the Pension Fund Committee for the transition to take place.
- ◆ It was noted that the transition timetable was set out in paragraph 2.2 of the report, however, it was again emphasised that issues going forward could alter that timetable.
- ◆ It was noted that a number of the other Pension Funds within BCPP had similar issues to those being experienced by the NYPF and, therefore, all appropriate parties were discussing those issues to develop an appropriate position going forward.
- ◆ Members re-emphasised the theory behind pooling, which was to enable Pension Funds to continue with their Investment Strategies, at the same time as developing economies of scale to push down the costs of those investments. The Treasurer stated that this was still the case and emphasised that pooling arrangements were still in their initial phases, and those benefits were unlikely to be seen in the short term. It was noted that the Pension Fund Committee continued to provide an effective and strong challenge to pooling to ensure that the expected benefits were kept to the forefront of those arrangements.

**Resolved -**

That the Treasurer be thanked for his update and the issues raised be noted.

**167. Draft Minutes of the Pension Fund Committee Meeting held on 13 September 2018**

The Chairman stated that it would be advantageous to receive comments on any issues raised by Members, from the Treasurer of the NYPF, in relation to the Minutes.

The following issues were raised:-

- ◆ It was noted that the issue of the cash-flow position of the Fund had been raised at that meeting and an update was requested from the Treasurer. In response he stated that monitoring of the cash-flow position was now more robust than previously. He noted that allowing employers to provide an early payment at a discounted rate had boosted the cash flow position initially, but that diminished during the current valuation period. It was expected that the cash-flow position would be restored to a healthy level at the end of the three year period following the initial upfront payments. It was not expected that the cash-flow position would become negative in the short term. It was noted that should the cash-flow position look to be moving towards deficit then appropriate plans were in place to take account of that.

- ◆ Issues around the implementation of a charging policy for employers where they did not meet required data specifications, were discussed. It was noted that this was being brought in alongside the development of a relationship role, between the NYPF's Administration Team and employers, with a view to eliminating the significant problems that had occurred in recent years in relation to the provision of data. It was hoped that the development of relationships between the Pension Fund and employers would assist in ensuring that data was provided appropriately and eliminate the need for charges to be imposed. However, it was emphasised that should employers still fail to meet the necessary targets, then charges would be imposed.

In relation to this the Chairman noted that, in terms of this year, the Pension Fund could have been reported to the Pensions Regulator in respect of a breach of the Regulations for not providing all Annual Benefits Statements in time. It was noted that this was due to data not being provided by employers on time and that the Pensions Regulator could impose sanctions on employers where that was the case. The action outlined had prevented a breach being reported on this occasion, however, going forward, it was likely that a breach would be reported should a similar position occur next year.

It was noted that some employers were very small, which could be why difficulties were being encountered in terms of obtaining data on time or correctly. In response it was emphasised that fees would not be imposed for very small amounts, however, even small amounts of data affected the final outcomes and could still create a breach of the regulations. The Treasurer noted that an employer involved with the NYPF had an SLA in place and it was their responsibility to ensure that this was met, therefore, he had little sympathy in terms of them not providing the necessary data. It was hoped that the development of the relationship role would assist in overcoming those issues.

#### **Resolved -**

That the Treasurer be thanked for his attendance and assistance with the Board's consideration of the Minutes, and the issues raised in relation to those Minutes be noted.

#### **168(a) Minutes**

##### **Resolved -**

That the Minutes of the meeting held on 19 July 2018, having been printed and circulated, be taken as read and confirmed and signed by the Chairman as a correct record.

#### **168(b) Progress on Issues raised by the Board**

In respect of the appointment of a Scheme Member Representative, through co-option process, to the Joint Committee of the Border to Coast Pensions Partnership it was noted that the Joint Committee had agreed in principle for a Scheme Member Representative to be part of the Committee. It was also noted that addressing this matter could prove difficult in reality and it was not expected that further action on this would be in place in the short term. It was therefore agreed that the matter should be left as a progress item to be re-visited and reviewed, to ensure that the matter continued to be addressed.

In relation to the arrangements for a meeting between representatives from the various Pension Boards of the Funds involved in the BCPP and representatives of the BCPP, it was noted that the BCPP Conference was being held on 8 and 9 November 2018, at which the Chairman of the Pension Board would be attending, and a place was available for an additional Pension Board Member to attend. The Chairman asked that should anyone wish to attend that they contact him.

In terms of developing a structure to enable the Board to obtain details of relevant information, enabling them to monitor the development of the pooling arrangements, it was hoped that this would be addressed through contact with the BCPP's appointed Relationship Manager.

The other issues raised within the report had either been addressed earlier in the meeting or would be considered later on the agenda.

**Resolved -**

That the report be noted and action identified be undertaken accordingly.

**169. Pensions Administration**

Considered -

The report of the Head of Pensions Administration providing Pension Board Members with an update on key initiatives undertaken by the Administration Team of the NYPF.

The Head of Pensions Administration, Phillippa Cockerill, provided an update on the following:-

Annual Benefit Statements

The majority of the 2018 Statements had now been issued as follows:-

Active statements - 26,442 - 86.52%

Deferred statements - 36,153 - 99.76%

It was noted that anything less than 100% was seen as a breach of the regulations, however as discussed earlier, it had been suggested that progress on the relationship development would be monitored and returns evaluated for next year. If necessary a breach would be reported if returns were inadequate then. Members suggested that should there be anything less than a 100% return next year then a breach should be reported, as the relationship role would have enabled employers to build an understanding of what they should be providing in terms of data.

A Member asked that the Breaches Log be provided with a column showing which regulation the breach related to. The Head of Pensions Administration agreed to put that in place for future reports.

It was suggested that monthly returns, rather than all at the year end, may help the situation in terms of obtaining data and data quality going forward. A Member suggested that this may be helpful to employers who were particularly busy at year end. The Head of Pensions Administration stated that she is considering implementing this as a way to address the issue however, the impact on resource needs to be carefully considered.



### Letter Review Project

The Head of Pensions Administration stated that progress was continuing with the review of letters, with ten now in the new format replacing 29 existing letters. Work continued to streamline the suite of letters, however, there had been a small setback as the new version of Altair had resulted in the new letters no longer working correctly. Work was being undertaken to find a solution to this.

### Employer Discretions Policy

A first draft of the revised Employer Discretions Policy was provided for review and comment. It was noted that the next stage was to work with the largest two employers to establish their discretions and ensure what had been developed worked as expected. Once this had been confirmed the policy would be rolled out to all employers.

It was expected that the policy would have been tested by the end of March 2019 with a view to rolling out in the next financial year. Members noted that this gave help and assistance to all employers in determining their specific discretions for their own employees.

Some issues in relation to the formatting and colour coding of the report were highlighted, particularly in the printed, rather than the electronic, version. The issues were acknowledged by officers and it was stated that those matters would be addressed.

Clarification was provided in relation to the payment of contributions for a member of staff serving in the Reserve Forces and undertaking a tour of duty.

### Pension Fund Committee Appendices

The attachments that formed part of the Administration Report for the most recent Pension Fund Committee were provided as these allowed access for Pension Board Members who may not have been provided these electronically.

Issues around the difficulties currently faced by officers at the City of York Council and how they were being addressed, in relation to the provision of data to the NYPF were discussed. It was noted that officers from the NYPF would be in close liaison with the City of York Council officers to address this matter and assurance was provided that charging would not be implemented before appropriate liaison had taken place.

### **Resolved -**

- (i) That the contents of the report be noted.
- (ii) That the contents of the Breaches Log be noted and it be stated that no breaches would be reported to the Pensions Regulator at this time, for the reasons outlined earlier in the meeting; and
- (iii) That the Employer Discretions Policy document be noted and the amendments, as identified, be undertaken accordingly.

## 170. Internal Audit Reports

Considered -

The report of Internal Audit providing the Pension Board with an update on Internal Audit activity.

Internal Audit Manager, Ian Morton, presented the report highlighting the following:-

- ◆ All work in the Internal Audit Plan for 2017/18 had now been completed and reported to the Pension Board.
- ◆ The implementation of agreed actions for 2017/18 was shown in an Appendix to the report and included details for the expenditure 2016/17 audit which had not previously been reported.
- ◆ Details for the individual audits were shown in Appendix 2 to the report.
- ◆ Details of the Audit Plan for 2018/19, approved at the previous meeting of the Pension Board, were outlined and the current status of each audit indicated.
- ◆ Further exploration of what to include in the Pension Fund Investments Audit was being undertaken in respect of pooling arrangements and feedback was being obtained from the CIPFA Investments Workshop and the Lincolnshire Review to determine what would be appropriate in terms of auditing in line with the implementation of those arrangements.

The following issues were raised in respect of the report:-

- ◆ It was noted that there had been delays in the follow-up action to the Internal Audit reports due to a lack of resources and it was asked whether this was a temporary situation or whether the matter should be raised with the Pension Fund's Treasurer. In response, the Head of Pensions Administration stated that this was a temporary issue following a large amount of staff turnover. Recruitment had taken place and, following a short settling in period, it was expected that the situation would settle down and matters would be addressed accordingly.
- ◆ In relation to the corrections to coding currently carried out at year end, the Audit Manager emphasised that it would be better if this could be carried out more frequently, however, due to capacity issues this was not currently the case. He emphasised this was the lowest priority to address and emphasised that it would only be beneficial for this to be carried out rather than necessary.
- ◆ A Member suggested that it would be beneficial to Members if a brief summary, as to why action points had been identified, was provided within the report. The Audit Manager acknowledged this matter, noting that this was a new framework for the report and suggestions for improvements would be taken on board. In relation to this, Members also considered it would be of benefit to have a summary of the action undertaken to address those matters.
- ◆ The wording within the report in relation to reconciliation was considered to be rather forthright, and it was suggested that better wording could have been used in terms of the Pension Fund's administration interaction with other NYCC sections. This was acknowledged and it was again stated that the

reports were evolving to ensure as much information as possible could be related to Members.

- ◆ The Audit Manager stated that he would ensure that the details of the CIPFA Investments Workshop were shared with Members electronically to assist with their consideration of the issues related to transitioning to pooling.

**Resolved -**

That the report be noted.

**171. External Audit Report**

**Resolved -**

That the contents of the External Audit report be noted.

**172. Governance Documents**

**Considered -**

The report of the Treasurer providing Pension Board Members with an update on the governance arrangements of the Fund and with the opportunity to provide their feedback on the governance documents of the Fund.

It was noted that a number of governance documents of the Fund were taken to the Pension Fund Committee held on 5 July 2018 as part of their annual review. There had been a number of additional governance documents produced for the Fund during the year, some for best practice purposes and others required by new regulations. Those governance documents were brought to the meeting of the Board held in July, for review.

The following governance documents were taken to the Pension Fund Committee held in September where they were approved:-

- ◆ Pensions Administration Strategy.
- ◆ Employer Charging Policy.
- ◆ NYPF Annual Reports.
- ◆ NYPF Business Plan.

The governance documents were circulated to Board Members prior to the meeting and Members were asked to provide feedback on these documents as part of their role in ensuring good governance arrangements for the Fund.

An annual governance review was also undertaken by the Independent Professional Observer and his report was presented at the September Pension Fund Committee meeting and was also attached to the report.

Following the review of the draft NYPF statement of compliance with the UK Stewardship Code, at the Pension Board in January 2018, the document had now gained a Tier 1 Assessment by the Financial Reporting Council and had been published. The Admissions and Terminations Policy of the Fund would also be brought to the Board for review in the near future. An updated version of the Risk Register would be brought to the January 2019 Pension Board meeting for review.

Following the report a number of issues and points were raised as follows:-

- ◆ Members debated the use of the word “persistent” in terms of implementing a penalty charging system for employers. Some Members considered that the use of the word “persistent” could open a debate around a definition of that term, whereas others suggested that this provided a degree of flexibility in terms of implementing the penalty system and charging in relation to transgressions of service level agreements.

It was noted that the Pensions Regulator had stated that it would be more actively involved in complaints and implementing regulations with Pension Funds from now, which was why robust policies and procedures were required in terms of potential breaches going forward.

- ◆ Clarification was provided in relation to the staffing numbers which appeared to differ in the Annual Report and the Business Plan for the NYPF, and it was noted that the numbers within the Annual Report reflected the position as of 31 March 2018. Members noted that the establishment, rather than actual numbers in posts were usually reported in Business Plan documents.
- ◆ It was noted that governance reports would normally be reviewed annually by the Pension Board going forward, and Members welcomed their provision and the ability to consider these.
- ◆ A Member particularly welcomed the report of the Pension Fund’s Independent Observer, Peter Scales, noting that he had stated that Pension Boards should be more involved in investment issues and suggested that the matter should be discussed further at a future meeting of the Pension Board. The Chairman stated that he would be happy to have Peter Scales, together with the Treasurer of the Fund, attend a subsequent meeting to discuss issues with Members of the Board. Members stated that this would be welcomed, particularly in relation to discussions around pooling and the role of the Pension Board.
- ◆ It was suggested, therefore, that, dependent upon availability, an item be placed on the next agenda of the Pension Board to discuss the role of the Board going forward with the Independent Observer, Peter Scales, and the Treasurer of the Fund, Gary Fielding.

**Resolved -**

That the report be noted and arrangements for Peter Scales and Gary Fielding to attend the next meeting of the Board be developed.

### **173. Pension Board Projects**

#### **Resolved -**

That the update reports for the three projects be deferred to the next meeting of the Pension Board.

### **174. Training, including Feedback from any courses attended and Skills Matrix/Self-Assessment**

#### **Considered -**

The report of the Assistant Chief Executive (Legal and Democratic Services) providing an update on Pension Board Member training and requesting Members to consider and approve, skills matrix and self-assessment questionnaires.

Members noted that their training details were up-to-date.

It was noted that, at the Pension Fund Committee held in September 2018, Members of that Committee agreed to adopt a Training Policy. A Member noted that within that report an on-line programme of training for Pension Board Members was identified. He noted that he had attempted to access that training but was unable to as he had previously undertaken the trustees' course. He asked whether Pension Board Members would be able to access that training. In response it was stated that this matter was acknowledged and confirmation would be provided to Members as to whether they could access the training outlined in due course.

#### **Skills Matrix/Self-Assessment**

As part of the policy adopted by the Pension Fund Committee a skills matrix/self-assessment questionnaire had been developed, to enable them to identify required training needs. The questionnaires had been adapted specifically for Board Members and details were provided in an Appendix to the report for Members to comment upon. Should Members be satisfied with the questionnaires then these would be circulated, electronically, allowing a more effective evaluation exercise to be undertaken.

Members welcomed the new questionnaires and considered these to be more appropriate than the previous versions that had been circulated. It was noted that there was sufficient space within the questionnaires to identify any specific training needs required by Pension Board Members. The questionnaires would be circulated and results would be collated and reported back to a subsequent meeting.

#### **Resolved -**

- (i) That Members noted that their training details were currently up-to-date;
- (ii) That the skills matrix and self-assessment questionnaires be circulated for completion, allowing an effective evaluation exercise to be undertaken; and
- (iii) That Members continue to identify any appropriate training needs.

## **175. Work Plan**

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing details of the areas of planned work by the Pension Board.

It was noted that the current projects, as detailed earlier in the meeting, would be updated and reviewed at the next meeting of the Board.

The Chairman noted that the Annual Review of the Board's Work Programme would be undertaken at the next meeting.

**Resolved -**

That the Work Plan, as detailed in the report, be agreed and a review of that Plan be undertaken at the next meeting of the Board.

The meeting concluded at 11.55 am

SL/JR