

# North Yorkshire County Council

## Pension Fund Committee

Minutes of the meeting held on 25 November 2022 held at County Hall, Northallerton commencing at 10 am.

### **Present:-**

County Councillors John Weighell OBE (Chairman), Sam Gibbs, George Jabbour, Carl Les, Cliff Lunn, David Noland, Neil Swannick, Angus Thompson, Matt Walker and Andrew Williams.

Councillor Christian Vassie - City of York Council.

David Portlock - Chair of the Pension Board.

Brian Hazledine – UNISON retired members.

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

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### **15. Exclusion of the Public and Press**

#### **Resolved –**

That on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006, the public was excluded from the meeting during consideration of Min.no.16(b) – Confidential minutes of 1<sup>st</sup> July 2022

### **16(a). Minutes**

#### **Resolved -**

That the Minutes of the meeting held on 1<sup>st</sup> July 2022 were confirmed and would be signed by the Chairman as a correct record at the first available opportunity.

### **16(b). Confidential Minutes**

That the Confidential Minutes of the meeting held on 1<sup>st</sup> July 2022 were confirmed and would be signed by the Chairman as a correct record at the first available opportunity.

(There was no discussion of the Confidential Minutes, therefore, the Meeting did not go into private session).

### **17. Declarations of Interest**

County Councillor George Jabbour declared the following non-registerable interest:-

I have been campaigning on issues involving the way public-sector organisations, pension funds and other institutions manage their finances.

## 18. Public Questions or Statements

There were no public questions/statements.

## 19. Pension Administration Report

Considered -

The report of the Treasurer providing Members with information relating to the administration of the Fund in the quarter and updates on key issues and initiatives which impact the administration team, including the following:-

Admission Agreements and New Academies

Administration

Membership Statistics

Throughput Statistics

Performance Statistics

Commendations and Complaints

Annual Benefit Statements 2022

Breaches Policy & Log

Business Plan Update

Issues and Initiatives

Administration System

Payroll Enhancements

McCloud

Broadacres

Governance Documents

Member Training

Meeting Timetable

The following issues from the report were highlighted:-

- The Administration section had been very busy through August/September mainly due to the work involving schools returning during that period and pensions staff being on annual leave. The performance against target rating of the section had fallen during that period, with two main causes identified; the first one being staff not utilising the administration system correctly And the Transfers Team had been understaffed It was expected that the rating would

improve over the next quarter as staff understand how to use the system correctly and new staff became more fully trained.

- There had been five complaints received during the quarter with the majority in relation to decisions not to grant ill health retirement. Details of the lessons learnt from the complaints were provided.
- Details of the Annual Benefits Statements (ABS) issued were provided. As of 21 November there were 456 statements remaining that were un-issued, with 184 requiring further work. This equated to an issue rate of 98.94% for 2022, with over 29K issued.
- There had been two breaches of the regulations since the previous meeting, with the details outlined in the breaches log, in relation to the non-issuing of 100% of the Annual Benefits Statements within the appropriate time frame and the late provision of the 2021 Pension Savings Statements to five recipients. The Savings Statements issue was reported to HMRC which resulted in a £12k fine (12 statements were involved with a charge from HMRC of £100 per statement). Details were outlined as to how the breaches would be addressed, going forward
- The Business Plan update which sets out the progress made on the current Business Plan objectives was detailed in the report.
- An update was provided in respect of the employer portal, i-Connect, for monthly data returns, with NYCC nearly fully incorporated, which was a major step for the implementation of the system. Efforts were now underway to have the District and Borough Councils signed up before the new North Yorkshire Council comes into being in April 2023.
- The initial validation exercise on the employer data relating to the McCloud judgement had now been completed with meetings to take place in relation to this shortly.
- The Broadacres proposed transfer into the Fund had now been cancelled.

Members discussed the report and the following issues were raised:-

- It was noted that the Pension Board had recommended that the breaches identified should not be referred to the Pensions Regulator and an explanation was requested. In response, the Chair of the Pension Board, outlined how a discussion had taken place at the October meeting of the Board, on the breaches. It had been agreed in terms of the Savings Statements that appropriate action had been taken to address the issue, the HMRC fine should be paid and the matter should not be referred. In terms of the ABS it had been noted that the NYPF was unwilling to issue Statements with incorrect information and some Pension Funds ignored accuracy to meet the deadline. It was considered appropriate that time was taken to ensure that statements issued were accurate, therefore, it was also recommended that no referral be made.

#### **Resolved –**

- (i) That the contents of the report be noted;
- (ii) That in terms of the data breaches reported, Members agreed with the recommendation of the Pension Board that no reports should be made to the Pensions' Regulator.

## **20. Pension Fund Annual Report 2021/22**

Considered –

The report of the Treasurer requesting Members to approve the draft Pension Fund Annual Report 2021/22.

It was explained that, due to a technical issue affecting local authorities across the UK including North Yorkshire County Council, the final accounts had yet to be signed off. The Audit Committee has the responsibility of signing off the Council's accounts, which includes the accounts of the Pension Fund. It was expected that the accounts would be finalised in the coming weeks. In the interim, and subject to Members agreeing, the draft Annual Report would be published online, and would be replaced by the final version when the audit was completed. The Annual Report was complete, except for the section on pooling arrangements which would be updated before the final document was published.

Details contained within the Annual Report were outlined, including the Executive summary.

The Treasurer endorsed the details outlined emphasising that the signing off the Final Accounts was a national issue, with many Councils affected. He praised the work undertaken by the Audit Committee and its Working Group to ensure that the accounts and the auditing process were monitored. A Member of the Working Group outlined the meticulous process undertaken to ensure that the accounts were appropriately monitored.

A Member referred to the risk highlighted within the Annual Report in respect of fluctuating currency levels and asked why currency hedging had not been implemented to minimise the risk. In response it was stated that the issue of currency hedging had been discussed many times by the Committee previously, and had been implemented at different times with mixed results. It was stated that the issue could be discussed at forthcoming investment strategy review workshop, but it was emphasised that, taking the long term view on investments, this was a complex matter, and experience had been that there was questionable benefit.

### **Resolved -**

That the draft Pension Fund Annual Report for 2021/22 be approved.

## **21. Budget and Cashflow**

Considered –

The report of the Treasurer outlining the following:-

the 2022/23 budget and the cost of running the Fund;

the 4 year cashflow projection for the Fund.

The main variances within the budget were lower fund manager fees and additional staff in the Administration Team. The decrease in fund manager fees had resulted from the difficult market conditions experienced over the quarter, leading to lower asset values and, therefore, lower manager fees. It was expected that, in the long term, the position would recover.

The cashflow position was challenging due in the main to an extended period of high inflation. It was expected that there would be a small cash surplus at the end of this

year, followed by a small deficit, in the context of a £4 billion Fund, in subsequent years. Cash would be obtained from several investment sources including property and other income to ensure the Fund's needs would be met. It was noted that there was a Cashflow Policy in place which would be adhered to ensuring that the Fund was able to meet its commitments.

#### **Resolved –**

That the contents of the report be noted.

## **22. Performance of the Fund**

#### **Considered –**

Report of the Investment Consultants, AON, providing comprehensive details of performance and asset allocation information for the Fund along with a background to the investment markets during the second quarter of 2022/23. The Fund's Independent Financial Advisor also provided analysis of the details.

The risks to the Fund's investment strategy and the performance of the various fund managers were also detailed.

The following issues were highlighted:-

- The quarter had seen a difficult period for the markets resulting in negative returns not seen for a substantial period of time.
- Currently the markets were experiencing the end of a decade-long positive run for assets. High inflation and increasing interest rates were now dominating, which was impacting on all asset classes and the Fund's liabilities, and had decreased the funding level of the Fund. It was also suggested that the UK was looking likely to fall into recession and assets and liability values would be further affected. A period of sustained uncertainty for the Fund was expected.
- Despite the recent fall in the funding level, the Fund's solvency position was still well over 100%, due to exceptionally good performance over the period since the global financial crisis in 2008/09. In the long term it was expected that returns would recover, and the funding level improve, however, short term volatility should be expected. It was also expected that investment opportunities would arise during this period. It was considered appropriate that an investment strategy review was undertaken to take account of these issues.
- Issues relating to the potential for interest rate changes, the effect on bonds and liabilities, and the USA interest rate and impact on USA equities were outlined.
- The recent funding position compared to that in 2009 was outlined, and it was noted that the Fund's estimated solvency position was currently 107% which reflected the recent downturn, and there was a need to guard against complacency.
- The independent Investment Adviser warned against being too cautious during this period, noting that the markets have already largely adjusted to take account of the outlook, and investments should be considered in that context. The workshop would be an appropriate arena to consider this.
- A Member highlighted the fluctuating position of the pound against the dollar in recent weeks, influenced by changes of Government, and that US inflation had been lower. He also considered it appropriate that the portfolio be adapted to be in a position to benefit from the upturn of markets when that takes place. The Chair echoed this, but emphasised that caution was needed, given how volatile markets were likely to be. The Treasurer stated that a Strategy review was on the horizon.
- Members emphasised the need to guard against the volatility of the markets when carrying out the review of the investment strategy to ensure that the current position of being over 100% funded was maintained. The Chair stated that the workshop

would explore the strategy, going forward, and would take account of everyone's views and would seek to find a consensus on how the strategy should develop.

- Noting the recent decision by the Committee to disinvest from Dodge and Cox as part of the process of implementing changes to the investment strategy agreed in 2021, and to rebalance a proportion into Baillie Gifford, a Member asked whether that had been an appropriate decision, given the current circumstances. Another member noted that he had raised the Fund's exposure to equities at the time the decision was taken and felt that further de-risking was required to protect the current funding level. He suggested that consideration should be given to alternative investments in equities with a stronger focus on ESG outcomes. The Chair noted that the previous high exposure to equities had been the reason the Fund had reached the recent funded level of 125%, and recognised the need to protect it. He emphasised that the protection should not detract too much from the Fund's ability to grow and take advantage of rising markets. A Member highlighted the recent Baillie Gifford conference he had attended and welcomed their approach with a focus on growth and ESG. He noted that, in the long term, climate risk would increasingly be a major focus for investments and felt that the strategy should be developed accordingly, with the workshop utilised to explore that further.
- A Member welcomed the report as it had provided context and clarification on what had appeared to be a worrying market environment for the Fund. The Treasurer welcomed the challenge from Members on the investment strategy position, which would feed into the forthcoming review. He noted that in recent years the Fund had taken steps to de-risk with a gradual reduction in exposure to equities, which at one point was around 80%, and careful consideration would be required as to how the Fund moved forward.
- The Chair noted that equities had fallen, but property values had not changed very much. The Investment Consultant stated that property was not selling currently, making it hard to value this asset class, and the expected UK recession would see property prices falling significantly. He stated that the investment strategy would be reviewed and developed appropriately, taking account of Members' views. Equities represented the biggest risk to the Fund. Members agreed that guarding against further risk to the funding position should be part of the review of the investment strategy, including considering alternative investment opportunities to equities.
- The representative of UNISONs retired members requested that details of the quarterly performance of the Fund be communicated to retired members for reference purposes. In response it was noted that the Pensions Newsletter did outline the position but it was acknowledged that a graphical interpretation of those details would be beneficial, so would be provided in subsequent editions.
- A Member asked how the Investment Consultant had arrived at their conclusions within the report, particularly in respect of property and equities. In response it was outlined that details were considered on a monthly basis to consider trends and the outlook was similarly updated

#### **Resolved –**

- (i) That the contents of the report, and the issue raised, be noted;
- (ii) That further consideration be given to the investment strategy at the workshop.

#### **23. Pension Board – report back by the Chair on the meetings held on 7<sup>th</sup> July 2022 and 6<sup>th</sup> October 2022**

#### **Considered -**

A verbal update by the Chair of the Pension Board based on the Minutes of the meetings which had been provided.

The Chair of the Pension Fund Committee initially noted that during the report on the Annual Report of the Pension Board, at a recent meeting of the County Council, a comment had been made regarding investments made by the Fund. He wished to ensure that Council Members were aware of the relationship between the Committee and the Board and the remit of the Board. He stated that a seminar could be arranged for Members to clarify these details. A Member of the Committee who had attended Board meetings to observe stated that he had recognised the different nature of the two bodies.

The Chair of the Board highlighted the following issues discussed at the Meetings held in July and October:-

- Internal Audit reports continued to be presented to the Board. The most recent reports, as identified in the minutes, had all resulted in substantial assurance. Should any issues arise from the reports the Board would refer these to the Committee.
- The Board had received a very useful presentation on Cyber Security for the Pension Fund.
- At the recent meeting of the County Council the vacant position on the Board had been filled by the appointment of County Councillor Mike Jordan as the Employer Representative representing NYCC. It was noted that this was a re-appointment with Councillor Jordan having served on the Board when it was initially established. The Board now had a full complement of members.

**Resolved -**

That the details of the meeting outlined be noted and the Board's Chairman be thanked for his updates.

The meeting concluded at 11.35.

SML