North Yorkshire Council

Pension Fund Committee

Minutes of the meeting held on 26 May 2023 held at County Hall, Northallerton commencing at 10 am.

Present:-

Councillors Mark Crane, Sam Gibbs, George Jabbour, Carl Les (as substitute for John Weighell), David Noland, Neil Swannick, Angus Thompson, Matt Walker and Andrew Williams.

David Portlock - Chair of the Pension Board.

Brian Hazeldine – UNISON retired members.

Councillor Cliff Lunn – Attended the meeting remotely

Apologies for absence - County Councillor John Weighell (Chair)

Copies of all documents considered are in the Minute Book

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1. Appointment of Chair – for the purposes of this meeting only

In the absence of the Chair, and as no Vice-Chair had currently been appointed, the Committee were asked to appoint a Chair for the purposes of this meeting only.

Resolved –

That Councillor Angus Thompson be appointed Chair for the purposes of this meeting only.

2. 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. – 3(b) Confidential minutes.

3(a). Minutes

Resolved -

That the Minutes of the meeting held on 3rd March 2023 were confirmed and were signed by the Chair as a correct record, subject to the removal of Councillor Carl Les from the attendance list.

3(b). Confidential Minutes Resolved -

Resolved -

That the Confidential Minutes of the meeting held on 3rd March 2023 were confirmed and would be signed by the Chairman as a correct record at the first available opportunity subject to the removal of Councillor Carl Les from the attendance list.

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

4. Appointment of Vice-Chair

Resolved –

That the appointment of Vice-Chair be deferred to a subsequent meeting, allowing the Chair to be in attendance.

5. 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.

6. Public Questions or Statements

Howard Green and Harriet Wood of Fossil Free North Yorkshire submitted questions/statements.

Harriet Wood.

Thank you for affording us the opportunity to speak to you.

It is twelve months since we last spoke to the committee and during that time there has been no significant shift towards divesting from fossil fuel companies. Indeed, with the government's incentives to exploit new fields in the North Sea there has been an increase in funding for the major oil and gas producers. Even ethically styled ESG funds have been diverting funds to the fossil fuel giants.

It is against this backdrop and with overwhelming scientific evidence that climate change is gathering pace, that we are asking the committee once again to consider actively and urgently divesting from fossil fuel companies and reinvesting in renewables and other activities.

To take one example, there are nascent programmes to upgrade housing stock throughout the UK, to make homes more energy efficient and there is evidence that there is a real appetite amongst the public to take advantage of such schemes. Gareth Williams MD of Coplar Energy recently estimated that up to 20,000 new installations of alternatives to gas heating (air/ground source heat pumps, solar arrays) were being installed every month. He also said in the same conversation that all renewable technologies were cheaper than fossil fuel alternatives.

In his foreword to the latest UK Divest report, 'Divesting to Protect Our Pensions and the Planet' - Mark Campanale,Director of Carbon Tracker, has likened the continued investment in fossil fuels to the transition from Block Buster video hire to Netflix streaming. In this extract Mark exhorts Investment managers to open their eyes to the potentials of the new technologies and to the perils of stranded assets and act now.

We are asking the same of this committee.

We are aware that Borders to Coast Pension Partnership on behalf of the eleven funds they manage, which includes North Yorkshire, has recently switched investment to UK Alpha funds which are effectively fossil free. We are also aware, following analysis by colleagues with investment backgrounds, that the North Yorkshire Fund has a lower exposure to fossil fuel investments than some other comparable funds.
We commend you for this, but it is still not enough.

In 2020/214 it was estimated that £10 billions of local government pension money was invested in fossil fuel companies. That is £1450 for every person who receives a LGPS pension.

As a North Yorkshire pensioner, I respectfully ask that the committee makes decisions to shift many of its assets from fossil fuel companies over the next twelve months.

Howard Green

The context for this submission is the ongoing climate crisis – we last spoke to this committee a year ago. At that time we referred to the recent IPCC report which suggested that the world had 30 months to begin the radical changes necessary to enable all countries to attain their targets to keep global warming below or at a 1.5 degrees increase above pre-industrial levels.

As a member of Fossil Free North Yorkshire though not a recipient of a North Yorkshire pension I am someone who has been aware for many years of a problem for the world's climate in our reliance on the burning of fossil fuels.

The only way of making the sort of impact required to rapidly move away from burning fossil fuels is to stop investing in them. If investment were to dramatically fall in companies like Shell and BP they would be forced to radically change their working practices

We hear that NYPF and BCPP have indeed made some progress in divestment in the past year but we are not aware of any publicly declared commitment to divest from fossil fuels over a specific time period.

From a purely financial point of view there have been many studies that show that divestment from fossil fuels is likely to be beneficial. In a study by Jeremy Grantham et al – the New York State Common Retirement Fund would have been an estimated $22.2 billion richer if it had divested its fossil fuel stocks over an eleven year period, leaving its members and retirees an additional $19,820 richer.

Modelling by think-tank Ember for The World Economic Forums suggests that by upgrading its power system and quadrupling growth in wind and solar capacity, Europe could save an estimated €1 trillion by 2035.

From a purely technical point of view, with solar and wind power (with the world's biggest offshore wind farm on Dogger Bank, just off the Yorkshire coast) and turbines for rivers, tidal barriers and battery technologies there is surely enough renewable industries in which to invest and support further innovations.

However, the moral argument for divestment from fossil fuels is also compelling. We need to make a compact with future generations to not destroy the environment that we are handing to them. If we do the right thing now and realign ourselves with the natural world by stopping the burning of fossil fuels we can save a future for our children worth living in. I urge you to think very carefully about the continuation of support of fossil fuel investments and ask this committee to commit to fossil fuel divestment by the end of 2025 at the latest.

The following response was provided to the issues raised:-

We agree about the seriousness of climate change. In our recent investment strategy review we spent more time talking about this issue than anything else, including assessing the impact of a number climate change scenarios. We also recognise that the world will be reliant on oil and gas for many years and we believe that oil and gas companies will play an important role in the transition to a low carbon economy. This is why we think our approach of investing in and engaging with these companies to encourage a swifter transition is the right approach.

That being said, our oil and gas exposure is very low for a local government fund, and has actually fallen over the year from 1.8% to 1.3% despite this sector outperforming all of the others by a wide margin. This fall is due to decisions the Committee has made to move investments to Border to Coast. Climate change was a part of the decision making process however, to be clear, this was in part a recognition of the increasing risk climate change presents, rather than a divestment decision.

It should also be noted that the Committee has been increasing investment in renewable energy over recent years. Investments in wind, solar and other renewables now exceed those in oil and gas, and are expected to more than double over the next five years

7. 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 2023

Breaches Policy & Log

Issues and Initiatives

i-connect

LGR

McCloud

Member Training

Meeting Timetable

The following issues from the report were highlighted:-

- The Administration Section continue to be very busy, however, there had been a further improvement in the performance against target rating of the section which had resulted from a full complement of staff and better management.
- The number of members adopting self-service had increased which would assist with reducing the pressure on administration staff.
- There were 10 compliments received during the quarter and no complaints.
- The 2023 annual benefit statement (ABS) process had started with 198 returns provided by employers at this stage, 100 through i-connect, and four outstanding returns were being pursued. There were currently 43 returns to be verified and posted to records.
- Letters regarding pension options were being issued to employees who had transferred to North Yorkshire Council as part of Local Government Reorganisation. Employees from four of the seven former district and borough councils had received their letters, the rest would be issued by the end of June (when the year end files had been submitted).
- There had been no reported breaches of the regulations over the previous quarter.
- An update was provided in respect of the employer portal, i-Connect, for monthly data returns, with 128 employers now on-boarded.
- The McCloud Project was now at the stage of reconciling data. The project had changed direction slightly in that the 3rd party provider will no longer be completing the project, with this to be done in-house, with a team being set up to carry this out.

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

- The Chair commended the Administration Team on the progress being made within their service.
- A Member noted that despite the good progress being made by the Team he was aware that the number of outstanding cases had increased during the quarter to over 1400, and he asked why this had occurred. In response it was stated that the measurement of outstanding work had been improved to provide better transparency. A project team had been created to deal with the backlog and since 31st March, when the quarter ended, the backlog has been drastically reduced.
- Members welcomed the details within the report that there were no complaints and no breaches during the quarter. It was stated that this reflected the good working systems now in place.
- It was asked if the publication of ABS for 2023 would comply with the legislation having 100% published by the deadline. It was emphasised that every effort would be made to meet this, however, only ABS with verified data would be issued.

Resolved –

That the contents of the report be noted.

8. 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;

an update on the Fund's final accounts and annual report 2021/22

The main variances within the budget were lower fund manager fees with the decrease resulting from the difficult market conditions experienced over the year, leading to lower asset values and, therefore, lower manager fees. It was expected that, in the long term, the position would recover.

The overall cash flow position was for a small Scheme Surplus in 2022/23, which was the position before investment related cashflows were taken into account. Deficits were projected from 2023/24. As previously reported to the Committee, it was a natural development for a pension fund to become cashflow negative, due to factors such as increasing life expectancy.

It was stated that the final accounts were still to be signed off. the reasons were nationwide accounting issues relating to infrastructure assets such as roads and bridges owned by councils across the UK, and the potential need to reflect the outcome of the 2022 Valuation.. The Treasurer stated that clarification was currently being sought with the External Auditors as to when the accounts would be signed off, as it was considered there was now sufficient evidence in place for this to happen. He considered that the longer that it took to sign off the accounts the greater the risk that additional issues may need to be taken into account. It was noted that an updated actuarial statement reflecting the 2022 Valuation may be required for the NYPF accounts , but no other changes were expected to be required.

Members of the Committee who also serve on the Audit Committee, outlined how discussions had been held with the External Auditor on the timescale for publishing the accounts. There was little optimism that this would happen in the near future and there were fears that this could have a knock-on effect for the 2022/23 audit. It was considered that the current position was unacceptable. Concern was also expressed that with the new Council inheriting responsibility for a number of district and borough council accounts needing signing off, the issue was significant and it was asked what could be done to expedite the signing off processes. The Treasurer stated that there was little else that could be done to speed matters up as this was entirely dependent on the External Auditor. Every avenue had been explored, but the Council would continue to press the Auditors on this.

A Member noted that the current External Auditor was moving away from undertaking Local Authority audits and wondered whether this was having an effect. In response it was stated that this could be true but the opposite was as likely, as the Auditor may want to wrap up the provision of this service as soon as possible. It was emphasised that the auditing process was fully scrutinised to ensure that the work was being carried out appropriately.

Members highlighted that the External Auditor may request additional fees for the extra work undertaken, going forward, and it was asked whether these would be paid, given the circumstances. In response it was emphasised that the fees position would be the subject of robust discussions and the basis of any additional fees would be challenged if appropriate. In terms of moving on to an alternative auditor it was stressed that, at this stage, it would not be practical, and the External Auditor was anyway in the last year of their contract.

A member queried the fees paid to BCPP, as outlined in the report. It was explained that these related to their project and governance costs which were costs evenly split between the local authority Funds within the partnership. It was noted that BCPP was not operated for profit and the fees on asset management represented the actual operational costs.

It was noted that the report highlighted rising life expectancy as a reason for the move towards negative cashflow, and it was queried whether this was still the case. In response it was stated that life expectancy was still rising, but not as fast as previously forecast. It was noted that many of the LGPS Funds had been cashflow negative for many years without any detrimental effects on their arrangements. It was also stressed that the Fund had expected to be in a negative cashflow position some years ago, but this has taken longer to materialise than expected, but now seems inevitable.

Resolved –

That the contents of the report, and issues raised, be noted.

9. 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 first quarter of 2023/24. 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.

Market Background – previous 12 months

- End of an era of low inflation and low interest rates
- Inflation at a high level coming out of the pandemic and had remained higher than originally expected. Also the war in Ukraine had pushed up inflation and had added to the pressure on central banks to increase interest rates.
- As a result market returns were driven down in 2022, and although returns were now showing signs of a bounce-back, they were still lower than before that period.
- Investments in property had been hit recently, as private sector investors saw higher yields on liquid bonds being more attractive than illiquid property investments.
- Yields for long term gilts had now risen to levels that were seen at the time of the Truss Government's mini-budget, and mortgage rates were rising steeply. In terms of the economy the UK was not in a particularly healthy state. It was noted that the position at the time of the mini-budget was particularly detrimental to private sector pension funds which needed to sell assets including commercial property to meet margin calls on gilts investments used in liability driven investment strategies. Details of the effect this had on these funds was outlined, and how that had impacted on markets.
- Details of how other markets had been affected, including bonds and property, were outlined. A Member, whilst agreeing with the majority of the Committee in keeping the Investment Strategy as it is for now, felt that the Fund's investments were still over exposed to equities and, eventually, would like to see action to reduce that risk to help safeguard the funding position of the Fund. It was noted that Corporate Pension Funds used gilts to match the cost of liabilities , but this had led to them selling property and other illiquid assets, whereas the LGPS could take a long term view. The current position regarding inflation and interest rates was captured to some extent in the recent valuation of the Fund, including a specific one off adjustment to take account of high inflation, but inflation may take longer to return to longer term expected levels than anticipated.

Funding position

- At the time of the valuation the funding level of the Fund was 115%, with a surplus of £640m. The position as of 30 March 2022 was 125% funded, but this was based on assumptions used in the 2019 valuation and did not include the adjustment of approximately 10% for high inflation. By the end of March this year the funding level had fallen to 110%, due, in the main, to the high volatility in the markets. Assets had fallen around 10% but liabilities had also fallen, resulting in the 5% reduction in the funding level. Returns were expected to recover in the future. Full details were provided in the report.
- Despite the downturn in the funding position the Fund was still in a healthy position as it was well above 100% funded. The risk to the Fund was that the funding position slipped back to below 100%, therefore, continuing to de-risk the investments whenever possible remained a priority.
- Issues around index linked bonds and their capacity to generate income to mitigate the negative cash flow position were discussed.
- It was noted that the Fund was now quite close to the Investment Strategy target allocations but some final tweaks were required.

Baillie Gifford

- The investment with Baillie Gifford was discussed, as the Committee were due to meet with their representatives immediately following the meeting. The previous Quarter had seen a strong performance from the investment following a recent run of poor performance. They remained highly ("buy") rated by the investment advisors. It was noted that Baillie Gifford and BCPP's Global Alpha fund were quote different but that both had outperformed their benchmark during the Quarter A report on the Fund's allocation to equities would be provided to the September meeting of the Committee. The various issues around the Baillie Gifford investment were outlined including their history of outperformance, their strategy going forward the market environment they were working in and how that may affect the performance of the investment. It was noted that they had been "buy" rated for a substantial number of years and had been instrumental in ensuring the Fund was more than 100% funded. The main concern raised was the recent change of personnel, which advisers were comfortable with.

Resolved –

That the contents of the report, and the issue raised, be noted;

10. Pension Board – report back by the Chair on the meetings held on 6th April 2023

The Chair of the Pension Board gave a verbal update on the most recent meeting of the Board based on the Minutes of the meeting held on 6th April, which had been provided.

The Chair of the Pension Board stated that details of changes to the Terms of Reference were reported to the Meeting. These related wholly to the change from North Yorkshire County Council to North Yorkshire Council following LGR.

Board Members were pleased to note that there had been no breaches of the regulations since their previous meeting.

Members discussed the minutes and update by the Chair of the Pension Board, and the following issue was highlighted:-

- A Member noted that the Board had discussed Responsible Investment Policies and Zero Carbon targets, and he asked for further details on that discussion. The Chair of the Board stated in response that the Board had highlighted that there were no specific targets set out in policies in terms of achieving Zero Carbon, however, he emphasised that it was within the remit of the PFC to consider. The Treasurer stated that the Committee would consider the policies, and the targets around Climate Change/responsible investments at a subsequent meeting.

Resolved -

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

The meeting concluded at 11.30am

SML