

North Yorkshire Council

Pension Board

Minutes of the meeting of the Pension Board held at County Hall, Northallerton on Thursday 26th October 2023 commencing at 10.00am.

Present: -

Members of the Board

David Portlock (Independent Chairman)

Employer Representatives:

Councillor Steve Watson (North Yorkshire Council)

David Hawkins (York College)

Emma Barber (Askham Bryan College)

Scheme Members:

David Houlgate (Unison)

Simon Purcell (Unison)

Gordon Gresty (NYPF retired member)

Council Officers:

Qingzi Bu, Chris Chapman, Phillippa Cockerill, Stuart Cutts, Jo Foster-Wade, Steve Loach, and Tom Morrison.

In attendance:

Councillor George Jabbour

Copies of all documents considered are in the Minute Book

27. Welcome and apologies for absence

Apologies for absence were submitted by Sam Thompson (North Yorkshire Council). It was noted that David Houlgate was running late but would be attending the meeting.

28(a). Minutes

Resolved -

That the Minutes of the meeting held on 6 July 2023, having been printed and circulated, be taken as read, confirmed as a correct record and signed by the Chairman.

28(b) Progress on Issues Raised by the Board

There had been no further development in relation to the Hymans Good Governance review since the previous meeting. The issue was reported to be progressing and would be reported to the Board as soon as details were available. World events and subsequent priorities may have affected the final signing off of the review.

A response had been sent by the North Yorkshire Pension Fund (NYPF) in respect of the consultation by the Government in relation to guidance for the next steps of pooling arrangements. An agenda item for today's meeting would explore this issue further.

Resolved -

That the report be noted.

29. Declarations of Interest

There were no declarations of interest.

30. Public Questions or Statements

There were no public questions or statements.

31. Pension Fund Committee – Draft Minutes of the meeting held on 15 September 2023

Considered -

The draft minutes of the meeting of the Pension Fund Committee (PFC) held on 15 September 2023.

The Chair highlighted the following main issues that were considered at the meeting:-

- A presentation by the new Chief Investment Officer (CIO) of BCPP, Joe McDonnell on the investments undertaken by Border to Coast Pensions Partnership (BCPP) and their future strategy
- The consultation on pooling and the draft response from NYPF
- The Administration Report – including two new breaches of the Regulations that would be discussed later at this meeting
- Budget and Cashflow – these would also be discussed later at this meeting.

Noting the public question to the PFC, a Member asked what progress was being made in respect of a reduction in investments related to fossil fuels. In response it was stated that the overall strategy for the PFC, through BCPP, was to seek the best returns for the Fund. Pressure was being exerted from several sources for the Fund to adopt an ethical view in terms of investments in fossil fuels, encouraging divestment from the sector, but care had to be taken that investment decisions were based on financial issues above anything else.

The PFC based their investment strategy primarily on what would provide the best returns for the Fund and, therefore, decisions were driven by financial matters. The Fund held only a small value of investments in oil and gas companies, with less than 0.5% of the total Fund invested in these via Global Alpha and UK Alpha investments. The strategy had a much larger investment in Global rather than UK equities which served to tilt away from exposure to oil and gas companies. The Fund's investments with Baillie Gifford further lowered this exposure as they had no such holdings. It was suggested that, currently, it was inevitable that there was some exposure to fossil fuel investments.

The Member noted the discussions at the PFC in September with BCPP and a call from a few committee members for more progress to be made on this matter. In response it was emphasised that the Fund's investments in renewable energy were primarily in private markets infrastructure funds, but some exposure was through oil and gas companies which were increasingly moving into renewables, such as BP, and this should be recognised. It was considered more appropriate that such investments continue to be held as it allowed the NYPF to exert pressure through engagement on those companies on their contribution to the transition to a low carbon economy. Without shareholdings there would be no influence. The member emphasised that some people were calling for pro-active action to be undertaken to move away from fossil fuels into renewables and pension funds were in a key position to influence that.. In response, it was commented that another issue to be aware of was the shortage of supply and high demand for renewable energy investments. The Fund was pursuing them where they provided the appropriate level of risk and return but suitable investments were not easy to find.

An Officer noted that he had received little almost no contact from the public in terms of divestment from oil and gas both in his role for North Yorkshire and East Riding Pension Funds. Other Funds had carried out surveys of their members and had discovered that they were not in favour of divesting, but wished the focus to be on achieving a financial return, to ensure their pensions were paid. The Member who raised the matter stated that the issue continued to be raised at UNISON AGMs and felt it was a legitimate issue to raise, given the interest in this matter. Anecdotally it was noted that other sectors were also interested in the pursual of this matter, for example many students, whereas many existing pensioners were more interested in the financial aspects of investments.

The Chair stated that the PFC periodically reviewed its Investment Strategy Statement, and the fossil fuel and renewable energy debate taking place at almost every meeting of the Committee and he expected that this would continue, going forward.

Resolved –

That the Minutes be noted.

32. Draft Pension Board Annual Report

Members considered the draft Annual Report of the Pension Board for 2022/23 with the amendments suggested at the July meeting now incorporated.

Resolved –

That the draft Annual Report of the Pension Board 2022/23, as amended, be approved, and be submitted to full Council for approval and publication and to the November meeting of the PFC for information.

33. Pension Fund Administration

The Head of Pensions Administration provided Members with an update on key initiatives undertaken by the administration team of the NYPF.

The following matters were highlighted:-

Pension Fund Committee Report

The PFC administration report and associated appendices which were discussed at their September 2023 meeting were set out in an Appendix to the report.

Breaches Log

There had been two new entries in the breaches log since the previous meeting of the Board, as detailed in the report. The first related to not publishing 100% of the Annual Benefits Statements (ABS) by the deadline (details would be provided later in the meeting) and the second related to an email sent to a Fund member containing an attachment with details of another Fund member, this having been attached erroneously. The email issue was down to human error, caused by pressure of work, and had been addressed with the employee. Both issues had been referred to the Internal Auditors, Veritau, and had been deemed low risk.

Members discussed whether to report the breaches to the Pensions Regulator and, given the low risk involved agreed that no report to the Pensions Regulator should be made. It was noted that the September meeting of the PFC had come to the same conclusion.

Annual Benefits Statements (ABS)

All of the statements for deferred pensions had been issued by the deadline. At the time of the deadline 872 statements for active members were outstanding, of these, 682 had now been issued, 132 were not eligible for statements and 58 required further data checks. 29,487 statements had now been issued (99.8%). This was a significant improvement from previous years with the process benefitting from the i-Connect system.

Major projects

The roll out of the i-Connect employer portal had recommenced following the year end and ABS work and additional resources were being targeted at this. All major employers were now on board with the scheme, with 77 yet to be added. It was noted that the report indicated that all employers would be on the system by the financial year end (31 March 2024) and it was asked whether this was optimistic. In response it was stated that of the outstanding 77, 30 were on the NYC payroll, therefore, there was some confidence that this could be achieved.

A new logo for the NYPF had been developed to coincide with the development of the new website, which was now at the testing phase, and is scheduled to be launched by 1 December 2023. Details of the revised logo were provided in the pack and were explained at the meeting. Noting the comments of the PFC relating to the new logo and issues around colour blindness, it was asked whether these had been taken account of. In response it was stated that the comments had been noted but it was unlikely that the colour scheme for the new logo would be changed.

The transition for Fund members following LGR had now been completed and all TUPE letters to affected members had been issued by the deadline. Issues in relation to year end data were being addressed and this was increasing the workload pressures for the team.

Good progress was being made on the data checks required for McCloud. Plans were being made for the next stage, however, additional issues continued to emerge. As this would require contact for every member of the Fund it was expected that most of the communication would be carried out electronically, which would not only be efficient but would lower costs.

Local Government Pensions Committee (LGPC) Bulletins Log

Details of recent LGPC bulletins, and the response to those, were set out in an appendix to the report. It was stated that every effort was made to ensure that the issues raised were assimilated into the work of the team.

Other issues

It was clarified that the date for the introduction of the Pensions Dashboard was now 31 October 2026.

A Member asked whether there was a significant impact on the administration team from responding to emails. In response it was stated that email archiving had altered recently making it difficult to provide a comparison, however, there is a dedicated team that deals with responses to phone calls and emails.

The Chair welcomed the excellent performance statistics during Quarter 2, with acknowledgement of that being recorded, and asked whether that level of performance was being maintained. In response it was stated that these had again improved in Quarter 3 thanks to the continued hard work of the team. Members welcomed this.

Resolved -

- (i) That the contents of the report be noted;
- (ii) That the contents of the Breaches Log be noted and no further action be taken in respect of the breaches highlighted at this meeting.

34. Investment Pooling Consultation

Members considered a report providing an update on the response of the NYPF to the Government's consultation, Local Government Pension Scheme (England and Wales): next steps on investments.

It was stated that PFC and Board Members had been consulted on the response by NYPF to the consultation, prior to this being submitted on 2nd October 2023.

It was noted that a recent address to a conference from a leading Civil Servant had indicated that the consultation's main objective was ensuring that Funds were transferring more of their assets to pools, and to consider investments in relation to the Government's Levelling Up Fund. Greater economies of scale through consolidation was a longer term aim.

It was stated that there had been very significant progress through BCPP, in terms of the objectives for pooling, therefore the NYPF was fairly relaxed in terms of the implications arising from this consultation. It apparent that the Government were utilising this approach rather than using existing powers to ensure that all Funds were complying with existing regulatory requirements.

A Member raised concerns that the new consultation was a veiled attempt by the Government to gain access to the funds held in the LGPS for the pursual of its policies. He suggested that the number of pools would be reduced to relatively few and would place the responsibility of their viability on Local Authorities while absolving themselves of any responsibility for managing liabilities in the LGPS. He considered this to be a major threat to the LGPS and was concerned that there appeared to be complacency from the NYPF in respect of this. In response it was stated that the long term view of the Government was not known, and it was acknowledged that, initially, pooling appeared to be expressed as an opportunity for them to utilise the money held in the LGPS for infrastructure projects in the UK. Since then, however, the Government's stance on that had been watered down with there being no compulsion for Funds to invest in those projects, although the option remained. It was noted that the NYPF had chosen to add infrastructure to its strategy and where viable UK projects were available, with an appropriate level of risk and return, these would be considered. It was not expected that the Government would take control of Funds within the LGPS as they would not wish to take over responsibility for the liabilities. The Member considered it naïve to believe that the Government would not try to access additional funding from the LGPS. It was acknowledged that while it was not considered that this would take place immediately, there were a number of people who held the same view as the Member.

It was asked when a response to the consultation responses was expected. In reply it was stated that it had been intimated that this would occur in the short term, but with the number of issues requiring the focus of the Government, currently, and the large number of responses to the consultation, which would require careful scrutiny, this may be optimistic.

Resolved –

That the report and issues raised be noted.

35. Budget and Cashflow

Members considered a report providing an on:-

- (a) the 2023/24 budget and the cost of running the Fund
- (b) the 4-year cashflow projection for the Fund
- (c) the latest position on the Fund's accounts and annual report for 2021/22 & 2022/23

The main changes to the budget were lower Pooling Operational Costs and a reduction in Investment Base fees.

The cashflow position was set out in the report showing a move towards being cashflow negative in 2023/24 and moving further into deficit in 2024/25. Income generating investments such as property rental income would be utilised, initially, to cover any deficit. The position regarding an increase in CPI from the projected figure of 6% to the actual figure for September 2023 of 6.7% was outlined and it was noted that this would require a slight adjustment to the figures.

The final accounts had still to be signed off with no clear indication as to when this would be resolved. Publication of the NYPF Annual Report would be undertaken as soon as the accounts were published.

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

- The issue of the final accounts were discussed at a recent meeting of the Audit Committee, where reassurances were given that they would be cleared by the end of this week, however, they were still awaited. In terms of planning for the 2022/23 Audit, it was expected that a further update would be provided at the December meeting of the Audit Committee.
- A Member asked whether the increase in the CPI would bring the cashflow negative position nearer. This was confirmed, although it was noted that the Fund was heading towards cashflow negative in any case. It was emphasised that this would not make a material difference to the operation of the Fund, and updates would continue to be provided to the Board in respect of this. It was stated that despite the move towards being cashflow negative the NYPF was in a good position compared to a number of other Funds, many of which had been cashflow negative for some years. The concern in relation to cashflow was fully understood, and there were sufficient assets and income from investments to cover all outgoings including pension payments. It was asked whether any disinvestment would be required to meet those payments. It was stated that the Fund had a number of investments that provided income, for example rental from properties, which would be utilised, initially to provide additional cashflow for the Fund. Also, when any reallocation of investments takes place consideration is always given to retaining some cash if needed to assist cashflow. The arrangements were continually reviewed.

Resolved –

That the report and issues raised be noted.

36. Internal Audit Report

Members considered a report from the Internal Auditors, Veritau, that provided an update on the progress of the Internal Audit 2022/23 and the 2023/24 programme of work.

All three audits in the plan for 2022/23 had been completed and an overview was provided as follows :-

Pension Fund Investments - August 2023 - Substantial Assurance
Pension Fund Income - September 2023 - Reasonable Assurance
Pension Fund Expenditure - October 2023 - Substantial Assurance

Copies of each report were attached as an appendix to the report.

In terms of the “Reasonable Assurance” category awarded to Income it was stated that the key findings were set out in the appendix to the report. The issue, in the main, related to cover arrangements. This matter had now been addressed with appropriate cover now in place.

Details of the proposed audit activity for 2023/24 was highlighted as follows:-

Expenditure - The audit would review the pensions payments made directly from the Altair system. The audit would include a review of the processes and payments for spouses, children and death grants.

Income - The audit would cover receipt of contributions income and transfers in.

Investments -The audit would review the processes and controls in place to manage the movements of assets for reallocation and rebalancing, and the assurances provided by the fund managers.

Advice and support - An allowance of time to provide advice and support and attendance at Pensions Board.

It was stated that, subject to the comments of Members, a report would be brought to the January meeting of the Board for members to agree an audit plan for 2023/24. The following issues were raised in relation to the draft plan:-

- A Member suggested that the proposed audit plan closely mirrored the previous year’s plan and wondered whether there was scope for other issues to be audited. In response it was stated that the overarching areas would remain the same for Pension Fund Audits, however, different aspects of those areas (Expenditure, Income and Investments) would be considered each year. Details for those subject areas would be discussed with the lead officers to determine areas that would benefit from an audit and would assist the effectiveness of the service. Officers utilised the audit work to get reassurance that specific areas of work were operating and delivering appropriately, efficiently and effectively.
- It was noted that cyber security covered the emerging issue of Artificial Intelligence (AI) and how that was being used to commit fraud. It was acknowledged that cyber attacks, including the use of AI, were highlighted as the main area of risk not only for the Pension Fund, but for the wider Council, and action was being taken to defend against that.

Members discussed the “Reasonable Assurance” rating for income and the following issues were raised:-

- Members welcomed the progress that had been made since the publication of the report.
- Officers highlighted how they saw Internal Audit as a critical friend, and found the recommendations useful for the development of the service, however, it was suggested that rating of “Reasonable Assurance” was a little harsh given the low priority recommendations that emerged. Members stated that they could see why “Substantial Assurance” was not given but acknowledged that this was probably borderline.

Issues relating to the follow up on previously agreed actions were discussed and the following issues were highlighted:-

- In respect of the actions required on Business Continuity/Disaster Recovery it was noted that expert help had been required to address this and the work on this had now commenced. It was asked whether there was a back up plan should a disaster occur before the work had been completed. In response it was stated that it was expected that the overall North Yorkshire Council Plan would be utilised if there was such an occurrence, however, it was acknowledged that there were some mismatches within the Plans, which was a cause for concern, therefore the work would be completed as soon as possible. It was requested that an update on this issue be provided to the next meeting of the Board.
- It was noted that the Boxfish cyber security awareness training was not now contracted by the Council and a new provider would be sought.

Resolved –

That the report, and updates provided, be noted.

37. Training

Members considered the report of the Assistant Chief Executive (Legal and Democratic Services) which provided an update on Pension Board Member training.

It was confirmed that version 2 of the Hymans Robertson online training package Aspire was now in place, which was relatively similar to version 1, but with additional modules and was useful for all Members in terms of updating their knowledge of the LGPS.

Resolved -

- (i) That Members note the availability and details of the Hymans Robertson online training package;
- (ii) That Members continue to provide details of any training they wish to be included on their training record;
- (iii) That further consideration be given to identifying training sessions immediately prior to Board Meetings;
- (iv) That the report, and issues raised, be noted.

26. Work Plan

Members considered the report of the Assistant Chief Executive (Legal and Democratic Services) detailing the areas of planned work of the Pension Board for the coming year and providing meeting dates for the Pension Board for 2023/24.

The Chair stated that for 2024/25, the Board would recommence some detailed project work, and suggested that Members liaise with officers to determine which issues would be appropriate, within the scope of the Board, for that type of work .

Resolved -

- (i) That the Work Plan, as detailed in Appendix 1 to the report, be noted;
- (ii) Members consider issues within the remit of the Board that can be developed as project work
- (iii) That the dates of ordinary meetings for the remainder of 2023/24, as detailed in the report be noted as follows:-

Thursdays at 10am

11th January 2024

4th April 2024

The meeting concluded at 11.30am.

DRAFT