

North Yorkshire Council

Pension Fund Committee

Minutes of the meeting held on 24th November 2023 held at County Hall, Northallerton commencing at 10 am.

Present:-

Councillors George Jabbour (Vice-Chair in the Chair), Alyson Baker (as substitute for Councillor Mark Crane) John Cattanach, Caroline Dickinson (as substitute for Angus Thompson), Sam Gibbs, Carl Les (as substitute for Councillor Andrew Williams), Cliff Lunn, David Noland, Neil Swannick, and Matt Walker.

Councillor Jonny Crawshaw - City of York Council

David Portlock - Chair of the Pension Board.

Apologies for absence – Councillors Mark Crane, Angus Thompson and Andrew Williams; together with Brian Hazeldine – UNISON retired members.

Copies of all documents considered are in the Minute Book

27. Exclusion of the Public and Press

Resolved –

That on the grounds that these items 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 and press were excluded from the meeting during consideration of Min. nos. 36 – Excess Equity Proposals and 37 – BCPP Strategic Direction Plan

28. Minutes

Resolved -

That the Minutes of the meeting held on 15th September 2023 were confirmed and were signed by the Chairman as a correct record.

29. 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.

It was clarified that under the new interests regime declarations for Members who were in receipt of a pension from the NYPF, although this was not a registerable interest,

therefore those Members could fully take part in the meeting. The following Members declared a non-registerable interest in respect of this:-

Councillors Alyson Baker, John Cattanach, Carl Les and Cliff Lunn.

30. Public Questions or Statements

There were no public questions or statements.

31. 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

Business Plan update

Issues and Initiatives

Ongoing projects

i-Connect Rollout

Website development

McCloud

Member Training

Meeting Timetable

The following issues from the report were highlighted:-

- There had been a significant increase in the number of leavers during August, which, in the main, related to school employees, that would leave and re-join the Fund under a different contract in September, when the schools re-opened. There was a slight backlog in processing these, which was being worked through.
- Performance statistics had returned to their usual high levels, benefitting from being able to target resources more effectively following the year end and

Annual Benefits Statements (ABS) turnover, and from an increase in the number of members adopting the self-service facility, on-line.

- Details of complaints received during the quarter were outlined and it was noted that there was no specific emerging pattern.
- The 2023 ABS had now been fully issued, which was a month ahead of the previous year. Work had now commenced on the 2024 ABS.
- There had been three new reported breaches of the regulations over the previous quarter and the details of those, and how they had been subsequently addressed, were set out in the report. Two of breaches had been reported to the October meeting of the Pension Board, where, given the circumstances, it had been recommended that there was no reason to report those breaches to the Regulator.
- An update of the Business Plan was provided including the amendments approved at the March meeting of the Committee.
- i-Connect, for monthly data returns, now had 160 employers on board, with a further 69 to be onboarded, although some of these would be incorporated fairly quickly as they were contractors of NYC.
- The new website was currently going through a test phase and was expected to be fully launched on 4th December 2023.
- Work continued to process McCloud data returns with a Project Team now in place and good progress is being made. The communications on this would require extensive work, with all members of the fund having to be contacted. A variety of contact methods will be utilised in an attempt to lessen the burden on the section and to lower costs. Significant additional work was expected in response to those communications.

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

- It was clarified that of the approximately 22k members of the Fund there were around 80k that would fall within the scope of the McCloud judgment. A calculation would be undertaken for those eligible and each member would be awarded either a Final Salary or Career Average Pension, depending on whichever was the higher figure. A priority list was being developed in respect of the implementation of this.
- In response to a Member's question it was noted that the high numbers of preserved benefits related to the schools situation as outlined earlier in the meeting.
- It was clarified that the roll out of i-Connect should be completed relatively quickly as a number of those to be onboarded could be done so fairly quickly as a number were contractors of NYC and also additional resources could be targeted at this following year end and the ABS.
- The Chair of the Pension Board clarified that two of the breaches identified in the log had been discussed at the October meeting of the Board and it had been agreed that there was no need to report these to the Regulator. The third breach had only occurred recently, but he had discussed the matter with officers prior to the meeting, and could also recommend that this should not be reported to the Regulator.
- The acting Chair highlighted the appendix that provided details of training undertaken by Members of the Committee, noting that this would be extremely helpful going forward, as more emphasis would be placed on Committee Members having required knowledge and training. He noted that some amendments to the details provided were required and it was stated that these would be undertaken for when the paper was next published. It was also noted that Councillor Sam Gibbs had been re-appointed to the Committee.
- The draft calendar of meetings for 2023/24, outlined in the report had been agreed by Council, therefore, the dates were now confirmed. A schedule for workshop meetings was currently being developed and would be circulated to Members shortly.

Resolved –

- (i) That the contents of the report be noted.
- (ii) that the contents of the breaches log be noted and no report be made to the Pensions' regulator in relation to these.

32. North Yorkshire Pension Fund Annual Report 2022/23.

Considered –

The report of the Treasurer requesting Members to:-

- (i) approve the draft Pension Fund Annual Report for 2022/23;
- (ii) provide Members with an update on the status of the Pension Fund Annual Report for 2021/22

It was noted that, at this stage last year, the Annual report was signed off at the equivalent meeting, prior to it being published on the 1st December, as per the legislation. The nationwide issue of Councils accounting treatment of infrastructure assets caused significant delays to the auditing process with the issue not having been resolved until after the 2022 Valuation was known. This resulted in adjustments being made to Councils accounts including North Yorkshire Council in respect of pension liabilities. This matter remains ongoing. Inevitably this position had created a knock on effect for the 2022/23 audit and with national audit pressures compounding the situation the 2022/23 audit remains ongoing. Again, in line with legal requirements an Annual Report was required to be published by the 1st December. Given the circumstances a draft of the Annual Report would be published on-line, by the deadline, alongside a note explaining the current situation. Once the audit had been completed the accounts would be added to the Annual Report, the note would be removed, and the final version would be published.

A Member requested details of the numbers of employees that were contributing at the various rates linked to pensionable pay, as detailed in section 3.4 of the Annual Report. It was stated that the details would be provided.

Resolved –

That the draft Pension Fund Annual Report for 2022/23 be approved.

33. Budget and Cashflow

Considered –

The report of the Treasurer outlining the following:-

the 2023/24 budget and the cost of running the Fund;

the 4 year cashflow projection for the Fund.

The main variances in the budget related to lower than expected vacancies in the Administration Team and Consultant Fees being higher than anticipated due to the ongoing review of the allocation to equities.

There had been an alteration to the figure by which pension benefit payments would be raised in April 2024 from 6% to 6.7% in line with the CPI rate of inflation in September 2023.

The cashflow position was set out in the report showing a move towards being cashflow negative in 2023/24 and moving increasingly into deficit in later years. Income generating investments such as property rental income would be utilised and further options to generate receivable income were being explored with BCPP.

It was noted that section 2.1 of the report should have referred to an overspend rather than an underspend.

Resolved –

That the contents of the report be noted.

34. Pension Board – report back by the Chair on the meetings held on 26th October 2023

Considered -

A verbal update by the Chair of the Pension Board based on the Minutes of the meeting held on 26th October, which had been provided.

He highlighted the following issues that were discussed at the meeting:-

- The public statement, outlined in the minutes of the September meeting of the PFC, was discussed by Members of the Board, as the previous PFC minutes are a standing item on the agenda. A Member of the Board had outlined scheme members support for the statement. The Chair agreed that he would ensure that the view of those Members was passed on to the PFC to be taken account of when the Investment Strategy was reviewed.
- The Board's Annual Report had been submitted to, and approved by, Full Council. A copy had been provided for the information of PFC Members.
- Internal Audit reports in respect of Investments, Expenditure and Income were submitted to the meeting. The Investments and Expenditure audits provided substantial assurance whereas the Income audit was seen as reasonable assurance. Details were sought regarding the reasonable assurance categorisation and it was clarified how this had been established, with the matter now dealt with effectively. It was noted that Income had also come very close to being classed as substantial assurance.
- The Business Continuity and Disaster Plan was discussed and it was noted that although this was in place it required updating and expert help was awaited to assist with this. A further update would be provided at the January 2024 meeting of the Board.

Resolved –

The minutes, and highlights provided by the Chair, be noted.

35. 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 third 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.

The following issues were highlighted:-

- The key statistics for Quarter 3 – the Fund remained in surplus with assets above liabilities and was 108% funded at the end of September.
- There had been a strong return from the equity investments held by the Fund over the long term, however, since the 2022 valuation these assets had performed well below their long term expected return target.
- There had been a substantial fall in returns from bonds (index Linked had fallen around 30 – 40%) due to the rise in interest rates however, yields had increased, leading to an expected return of 7% per annum which currently made them good value.
- A table was provided outlining projections for investment returns for the next 10 years. It was noted that equities were expected to have very volatile returns over this period.
- Consideration could be given to whether to continue with the current allocations or to reduce equities in favour of bonds/cash which provided much more certainty in terms of yields, currently, while giving up some upside. There will be a discussion early next year to determine how best to approach this.
- Equity protection was mentioned as an option, which had been utilised by the Fund previously. An explanation was provided in respect of equity protection, which, in essence, was insurance against significant falls in the equity markets. However, the investment arrangements with BCPP would make this challenging to implement. It was noted that when equity protection had been used previously a great deal of the Committee's time had been devoted to monitoring this. It was also acknowledged that inflation was now falling, interest rates were likely to remain stable or fall slowly, which may lead to an upturn in the equity markets and negate the need for equity protection.
- A discussion of the property portfolio was undertaken with particular reference to AONs "down rating" of one of the property investment managers. The circumstances that had led to this were outlined. The matter was to be discussed with BCPP to determine whether this investment could be better placed into their property portfolio, with their fund launch due in late 2024. The investment was considered by the Committee, to assist with an informed decision to be made. It was emphasised that the investment was a small proportion of the overall Fund, therefore, if a change was needed there would be no significant impact from this.
- A further discussion on the current investment position of the Fund would be undertaken in the private section of this meeting, following this item.

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 forthcoming PFC meetings and workshops.

Minute Nos. 36 and 37 were considered as a private items (see Minute No. 27, above) and separate confidential minutes were produced. The Minutes below provide a public record of the consideration of those items.

36. Equities Allocation Review

Considered -

The report of the Treasurer outlining the review of the Fund's equities and setting out options for changing the allocations.

Members' consideration of this item is outlined in the confidential minutes.

Resolved -

- (i) That a reduction in the strategic allocation to Baillie Gifford's LTGG fund from 18%, with 10% being the proposed target be agreed
- (ii) That the removal of the strategic allocation to UK Equities of 4% be agreed
- (iii) That the recent divestments from the LTGG fund to reduce the current allocation to 15%, agree for it to be further reduced to 13%, and for the proceeds to be reinvested in Border to Coast's Investment Grade Corporate bonds fund up to its strategic weight, with the balance retained in cash be noted
- (iv) That further exploration of the impact listed equity market be undertaken, through meetings with additional managers
- (v) That consideration be given to a short-term tactical asset allocation changes through investments in cash and bonds at an appropriate time in the near future in light of decisions on the previous recommendations

37. BCPP Strategic Direction Plan

Considered –

A presentation by the CEO of BCPP, Rachel Elwell, on the Strategic Direction Plan for BCPP, including:-

- Development of pooling
- Progress made to date
- Investments of the NYPF
- Inevitable changes of how pooling operates through Government reforms.
- Change impacting partner Funds
- Project Group work towards change
- Implications of change
- Stakeholder engagement
- Consolidation

Members' consideration of this item is outlined in the confidential minutes.

Resolved –

That Rachel Elwell be thanked for her presentation the contents of which be noted.

The meeting concluded at 13.10

SML