North Yorkshire Council

Pension Fund Committee

Minutes of the meeting held on 1st March 2024 held at County Hall, Northallerton commencing at 10 am.

Present:-

Councillors George Jabbour (Vice-Chair in the Chair), John Cattanach, Sam Gibbs, Paul Haslam (as substitute for Councillor Mark Crane), Cliff Lunn, Heather Moorhouse (as substitute for Angus Thompson), David Noland, Neil Swannick, Matt Walker and Andrew Williams.

David Portlock - Chair of the Pension Board.

Apologies for absence – Councillors Mark Crane and Angus Thompson;
Councillor Jonny Crawshaw - City of York Council; together with Brian Hazeldine – UNISON retired members.

Two members of the public and a representative of the press were present.

Copies of all documents considered are in the Minute Book

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38. 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. 39 – Confidential Minutes and –

39. Minutes and Confidential Minutes

Resolved -

That the Minutes and Confidential Minutes of the meeting held on 24th November 2023 were confirmed and were signed by the Chairman as a correct record, subject to the alteration detailed below:-

Minute No. 31 – Pensions Administration report – Under “Members discussed the report and the following issues were raised:-“ replace the first bullet point with the following:-

It was clarified that whilst we have approximately 22k members of the Fund that are known to be in scope there were possibly another 80k members who might fall within the scope of the McCloud judgment when we receive details of any previous public sector pension scheme membership. A calculation would be undertaken for those eligible and each member would be awarded either a Final Salary or Career Average Pension for the McCloud underpin period, depending on whichever was the higher figure. A priority list for rectification was being developed in respect of the implementation of this.

40. 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.

The following Members declared a non-registerable interest in respect of them being in receipt of a pension from the NYPF:-

Councillors John Cattanach and Cliff Lunn.

41. Public Questions or Statements

Mr Richard Tassell of Fossil Free North Yorkshire provided the following questions/statements to the Committee:-

Since we last asked a question of the North Yorkshire Pension Committee in September there have been several significant developments related to continued investment in fossil fuel companies.
Barclays Bank have issued a statement on their future holdings in new fossil fuel exploration and development (February2024) saying they will no longer make such investments.

This comes in the same month (February 2024) where it was confirmed that the world during 2023 had reached the 1.5 degrees in warming (the 'target' established at the Paris Conference in 2015) beyond which global warming and climate breakdown would reach dangerous levels.

I would like to bring to the committee's attention recent research[4,5] that demonstrates that pension funds may be risking retirement savings by relying on economic research that ignores the science. It shows that climate modelling available to pension funds is flawed and grossly underestimates the true financial implications of a warming climate on pension returns. Real-world impacts of climate change, such as the impact of tipping points, sea-level rise and involuntary mass migration, are largely excluded from these economic models. Some models even implausibly show the hot-house world to be economically positive!

Many pension funds use investment models that predict that global warming of 2 to 4.3°C will have only a minimal impact on member portfolios, and even at 5 to 7°C of warming, these models predict that economic growth will continue (reducing future GDP by less than 10%, compared to a world with no climate change). Such predictions cannot be reconciled with the science. Global warming on this scale would be "an existential threat to human civilisation," "beyond catastrophic".

It is clear that there has been an element of "group think" here and that different professional groups have been working in silos.

I believe that North Yorkshire Pension fund has a fiduciary duty to review the climate modelling that you are using and ensure that it is fit for purpose.

These reports are referenced in this briefing document as is a recording of the webinar addressing this very issue that took place on Feb 5th. I am aware that there was representation from this committee at that webinar to which, all councillors received an invitation.

Our group would like to know, in the light of incontrovertible evidence which demonstrate the rapid, destructive and catastrophic nature of global warming why the North Yorkshire fund continues to invest in fossil fuels and why is the pension fund continuing to expose the fund to the ever-growing risk of stranded assets by investment in fossil fuel companies?

Mrs Margaret Jackson also of Fossil Free North Yorkshire provided the following questions/statements to the Committee:-

I would like to bring you some updates regarding pension funds and fossil fuel investing and then to alert you to new guidance on fiduciary duty.
I want to remind you that East Riding of Yorkshire Council recently voted unanimously, in Full Council, in favour of a motion to halt all new fossil fuel investments and fully divest from existing fossil fuel funds within five years. Cllr Andy Walker, of the Yorkshire Party, who proposed the motion, said: “It is crazy that our pensions are investing in fossil fuels when they are the very things that are jeopardising what we are saving for”.2
West Yorkshire Pension Fund has just two weeks ago revealed its plans to increase investments in sustainable projects, stop all new investments in fossil fuels, and review the impact of its approach to engagement.3
Conservative-run Wiltshire Pension Fund has recently committed to divestment; and the world's 10th largest pension fund, PFZW has divested 2.8 billion euros out of almost all oil and gas companies (incl. bp, Shell and TotalEnergies) because they missed the fund's deadline to bring in a "convincing and verifiable" climate strategy.
According to the most recent UK Divest data1, on the 31.3.22, 1.8% of the North Yorkshire Pension Fund (£75.9 million) was invested in fossil fuels. This represents a reduction in your exposure to fossil fuels, and we commend you for this. But North Yorkshire has not reduced as fast as over 20% of other local councils that now invest less than 1% of their total fund in fossil fuels. North Yorkshire appears to be lagging behind.
On fiduciary duty: The Financial Markets and Law Committee (FMLC) has issued guidance for pension funds.
As you know, these duties exist to ensure that those who manage other people’s money consider the long-term risks to, and consequences of, investment decisions. However, they do tend to cause confusion about the way in which system-level risks such as the climate and nature crises should be considered. During the passage of the Financial Services and Markets Act last year, cross-party peers called for new measures to clarify fiduciary duties in the context of climate risks and the transition to net zero.
The guidance is summarised in my notes submitted to this meeting and references are there too. Suffice it to say that the guidance makes clear that climate risk must be considered and that fiduciary duties need to be applied looking through a wide lens. I would ask that you spend some time reading the new guidance and considering this issue.
I have a question to the committee:
Does the Pension Fund have more up to date figures for its fossil fuel investment than the UK Divest figures above? And if so, please can you detail how these figures are derived?

The following response, delivered by the North Yorkshire Pension Fund’s Head of investments, was provided in relation to the issues raised:-

We thank you for your questions and agree that climate change is an extremely serious issue. We are aware that a few organisations have made statements over recent months on changing their approach to financing or investing in oil and gas companies. However, our approach is to engage with companies to influence the pace of transition to a low carbon economy, rather than divest, as we believe this is the best way to effect real world change.

The reports you mentioned, Loading the Dice Against Pensions and The Emperors New Climate Scenarios, raised some interesting questions on economic projections. These reports were raised in a public question and responded to at our meeting in September last year. We said that we know there are flaws in all projections but we are comfortable with the climate scenario analysis we undertook as part of the last investment strategy review. The science behind projections is evolving, and we will be making use of the latest developments when we next review the strategy.

The resolution at the East Riding of Yorkshire Council was for the Pensions Committee to review the investment strategy, with particular divestment goals in mind. We understand this review has been completed, and their Pensions Committee has decided to work more closely with Border to Coast on the evolution of the approach to responsible investment, rather than pursue divestment. This was reported to their Full Council on 21 February.

In answer to your specific question, the figure is approximately 1.3%, and this is fossil fuel companies in the energy sector.

The Chair of the Pension Board stated that he and the Investments Manager had met with the two representatives from Fossil Free North Yorkshire earlier in the week, with similar issues discussed. He noted that, overall, there had been a great deal of common ground within the discussion, but, understandably, there had been a difference of opinion in relation to how quickly divestments from fossil fuels should take place.

Councillor Haslam stated that he had also met with these representatives as part of his role as the Council's Climate Change Champion, and had been liaising with them for some time, with good progress made. He noted the assets of the NYPF and the current position of trying to influence a climate change response from fossil fuel providers, in relation to the low level of investments held. He emphasised the need to ensure that Climate Change was at the forefront of considerations by the Committee, in terms of investments, going forward, and that the issue should be addressed with the managers of these investments to ensure that they are also taking this issue seriously.

The Chair stated that the Committee recognised the importance of these issues noting that there had been previous engagement with FFNY. He stated that a recent newsletter from BCPP highlighted climate change risk, the monitoring of investments taking place and its importance, and that BCPP is a signatory to the UK Stewardship Code.

Mr Tassell asked if the risk details for investments related to fossil fuels could be shared but was informed that the documents contained confidential information and therefore could not be shared.

42. **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 2024

Breaches Policy & Log

Business Plan update

Issues and Initiatives

Ongoing projects

i-Connect Rollout

Website development

McCloud

New tPR General Code of Practice

Member Training

Meeting Timetable

The following issues from the report were highlighted:-

- The Administration service had seen a particularly busy period at the end of 2023 with a number of issues requiring additional focus. Despite this, extensive hard work had seen the back log reduced to one week at the start of January. This has since returned to the two week work in progress position.
- There had been 9 compliments and 3 complaints during the quarter.
- The 2023 Annual Benefit Statement (ABS) exercise had now been completed and work had started on 2024.
- There had been no new breaches of the Regulations during the quarter.
- i-Connect was continuing to be rolled out with 183 employers now onboard with 51 remaining to be included, with the full project expected to be finally concluded this year.
- The new website was launched on 4th December 2023.
- Data for the McCloud project had now all been received. Where there had been no response the existing data would be utilised. The updating of records from the data received had been completed.
- The tPR General Code of Practice would be effective from the end of March 2024. Both AON and Hymans have developed a compliance checker which had been demonstrated to Fund Officers. The decision has been made to utilise AON's platform and work is progressing on that basis. Further details will be brought to future meetings including the current compliance position, an action plan to get the Fund to full compliance and progress against the action plan.

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

- The Chair referred to the training events undertaken within the report and noted some anomalies to the details provided. He also re-emphasised the webinar events organised by AON and Hymans that were taking place and encouraged Members to join these.

- It was asked whether the new tPR Code was to be the subject of an agenda item at a subsequent meeting of the Committee. It was stated, in response, that the webinars organised by AON and Hymans, together with the Hymans online training platform, adequately provided the relevant information for Members in relation to the new Code It was stated, in relation to the new Code that a report would be developed from the compliance check to provide a RAG rating and action plan which would then be presented to both the Board and the Committee.
- A Member referred to the Hymans training platform and noted that version 2 had now superseded the original, and he asked whether he should repeat the whole training package. The Chair of the Pension Board also noted that whilst it was a requirement for Members of the Board to have a level of training and knowledge, this requirement was not currently the same for PFC Members, although this was likely to change in the near future, with governance regulations due to be renewed, and the online training platform was likely to be a valuable tool in meeting those requirements. The Chair noted that the "New Issues" module within the training package was always useful to revisit, as this was continually updated with new information on issues pertinent to the LGPS. It was considered appropriate that Members should refresh their knowledge via the online training platform every 2-3 years and should identify any specific training issues that would be beneficial to their service to the Committee.
- The Chair of the Pension Board welcomed that there had been no new breaches identified during the quarter. He noted the volume of work identified within the throughput statistics and asked whether there were any common themes in relation to these. In response it was stated that the only common aspect was the annual processing of data which could have had a knock-on effect.
- A Member who had attended a recent meeting of the Pension Board and had noted a fall in recent performance statistics asked whether resources available to the Administration Team were affecting the performance targets and the delivery of projects. In response it was emphasised that any issues of significant concern raised at the Pension Board would be raised directly with the Treasurer and acted upon accordingly. The Administration Team were working well and were endeavouring to meet the appropriate targets with no major concerns regarding their current performance. The Treasurer stated that the Team's resources were regularly checked to determine whether additional capacity was required and if identified this would be fixed accordingly.
- A Member highlighted the significant impact that cyber-crime was having on organisations and asked whether including details of how this was being addressed within the risk register would assist in targeting resources. In response the Treasurer stated that cyber security was administered by North Yorkshire Council for the NYPF, and information governance was recognised as the overriding corporate risk for the whole Authority, with the issue regularly considered at Audit Committee meetings. The Pension Fund benefitted from the Council being the Administering Authority in terms of the resources available to address this.
- It was suggested that, consideration should be given to providing a training allowance for Members, with the heightened emphasis of the necessity for this, going forward.

Resolved –

(i) That the contents of the report be noted.

(ii) that the contents of the breaches log be noted

43. Budget and Cashflow

Considered –

The report of the Treasurer outlining the following:-

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

the cashflow projection for the Fund.

The main variances were outlined in the report with an estimated total running cost of £36m against a budget of £36.8m, giving a forecast underspend of £0.8m. This related to lower than expected investment management costs resulting from the fall in asset values at the beginning of the year. Further variances were to be expected before the end of the year.

The cashflow position was set out in the report. The overall position was expected to be a series of steadily increasing deficits projected from 2023/24 through 2024/25, 2025/26, and 2026/27. This was to be expected as the Pension Fund continued to mature.

The cash flow forecast also showed movements relating to the Fund's investments. Initially any shortfall would be covered by income distributed to the Fund, such as property rental income, dividends from equities and coupons from bonds. This was already received to a limited extent. Options available to increase receivable income through Border to Coast would be further explored.

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

- It was noted that there had been some costs contained within the 2023/24 budget relating to the development of the BCPP UK and Global Property Funds.
- A Member highlighted an anomaly in the figures detailed within the report. The Treasurer stated that, although this made little difference to the overall outcome, the figures should be correct and would, therefore, corroborate the figures and recirculate.

Resolved –

That the contents of the report be noted.

44. Business Plan, budget and cashflow forecast

Considered -

The report of the Treasurer

Reporting on the progress made against the key business plan activities identified for 2023/24;

Requesting Members to approve the draft Business Plan for 2024/25 to 2026/27;

Requesting Members to approve the draft 2024/25 Budget; and

Reporting on the cashflow forecast of the Fund.

The report highlighted the progress made on the key targets within the 2023/24 business plan and provided a draft of the business plan through to 2027, rolling over some of the unfinished targets from the current year, alongside additional targets. Members would be provided with opportunities to monitor progress on the business plan at regular intervals.

It was highlighted that the governance review being undertaken by the Scheme Advisory Board was yet to emerge and a close watch would be kept on this to determine what implications this would have for the NYPF.

The Draft Business Plan for the following three years provided details of targets for that period and a plan of working towards those would be produced over the next quarter. An example was given of the work that would be carried out with AON and others to consider compliance with the new Code of Practice (as outlined earlier in the meeting) and to determine what work was required to comply.

The 2024/25 budget was outlined as £38.8m, a £1.7m increase on the previous year due in the main to investment fees payable because of the projected growth in asset values during 2024/25.

The cashflow position was detailed in the report and as described in the previous item (Minute No.43).

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

- BCPP would be launching its UK Property Fund in September 2024 and documents would be provided to Members at a forthcoming workshop and PFC Meeting.
- It was noted that arrangements for Strategy Workshops would not necessarily take place on the day before PFC meetings as was the usual practice but arrangements would be made based upon Members' availability.
- Details of the Charging Policy for non-compliance by employers on issues relating to the administration of the Fund were highlighted.
- Reference was made to the featured points of the Business Plan going forward, and the risk assessments outlined in the report, and it was suggested that a further risk should be added in relation to compliance with the new tPR Code of Practice. In response it was stated that an additional risk assessment in relation to this was not required as an appropriate tool would be utilised to assess the implications for the Fund, resulting in an assessment, RAG rating and action plan.
- A Member noted that the Business Plan outlined the commencement of TCFD (Task Force for Climate related Financial Disclosures) reporting but this was not taking place until at least 2025 and he asked why this would not be taking place sooner. In response it was stated that this matter had been subject to a consultation by the Government in 2022 with guidance expected, following this, however, the guidance has still not been published, hence the target date has been pushed back by at least a year. It was expected that NYPF would respond to the requirements when the guidance was issued.
- A Member queried whether the vision for the Fund was outlined strongly enough in the Business Plan and whether this was set out clearly enough in terms of maximising pension returns for scheme members. In response it was emphasised that as a defined benefits scheme payments to scheme members were regulated by legislation.
- Referring to the issues raised earlier in the meeting the Treasurer stated that the budget would be recirculated if this proved to be incorrect when the figures were checked.

Resolved:-

(i) that the progress made against the key business plan activities identified for 2023/24 be noted;

(ii) that the draft Business Plan for 2024/25 to 2026/27 be approved;

(iii) that the draft 2024/25 Budget be approved subject to clarification of the figures by the Treasurer; and

(iv) that the cashflow forecast of the Fund be noted.

45. Pension Board – report back by the Chair on the meetings held on 11th January 2024

Considered -

A verbal update by the Chair of the Pension Board based on the Minutes of the meeting held on 11th January 2024, which had been provided.

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

- The results of the External Audit were yet to be published despite reassurances that these details were imminent.
- The Risk Register for the Fund was examined at the meeting as part of the regular updates undertaken by the Board. Should any concerns arise these would be communicated to the Treasurer and the Committee.
- Internal Audit reports are provide to each meeting of the Board, the latest providing details of the internal audits to be carried out in 2024. Again any significant issues arising from the reports would be communicated to the Treasurer and the Committee.
- Training featured at all meetings of the Board as it is a statutory requirement that all Members had to have an appropriate, updated level of skills and knowledge to serve on the Board.

A Member highlighted the following in relation to the Board Chair's update:-

- The Chair of the Committee considered it strange that there was currently no statutory requirement relating to PFC Members levels of skills and knowledge, particularly when this body was responsible for the Fund's investments, however, he emphasised that the forthcoming review of governance was likely to change that position.
- It was noted that the update to the Disaster Recovery Plan had not taken place at the time of the Board meeting and it was asked whether this had now been resolved. In response it was stated that an initial meeting had been scheduled with the Emergency and Resilience Team on 26th March 2024 to progress the development of both the disaster recovery and business continuity plans.

Resolved –

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

46. 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 to the end of December 2023. The Fund's Independent

Financial Advisor and the NYPF Investments Manager 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.

A discussion of the report with Members resulted in the following issues been highlighted:-

- The Fund remained in surplus with assets above liabilities and was around 114% funded at the end of December.
- This had been a strong period for the equity investments held by the Fund but volatility in the markets remained.
- Further consideration would be given to the disinvested equities, around 5% of the Fund, which was currently held in cash. Discussions would be held with BCPP on options including impact equities.
- A table was provided outlining projections for investment returns for the next 10 years. It was noted that equities could be expected to have very volatile returns over short-term periods over this time frame.
- Issues relating to contribution rates for employers were discussed and it was emphasised that it would be 15 months before the next valuation of the Fund and changes to contribution rates would not be considered until then.
- Consideration continued to be given to de-risking the Fund's investments. The role of index linked gilts in de-risking and their recent performance in relation to liabilities were highlighted. Details of the investment risks were set out in the report. It was noted that it was highly unusual for both Gilts and Equities to perform well at the same time and the circumstances that had created this were outlined.
- Equities remained the main risk to the Fund's funding position due to the volatility of the markets. Bonds and Gilts were less risky investments and were currently showing good returns.
- Consideration would be given to changes to the Investment Strategy in due course, and there were considered to be no obvious reasons to take more urgent action.
- A Member suggested that there appeared to be a focus on the valuation and emphasised the need to ensure that the investments maintained a reasonable rate of return for the Fund over the long term, rather than adopting a short-term view for the purposes of the valuation. It was agreed that whilst consideration should be given to the valuation and its implications for the Fund including the contribution rates for its employers, the main focus would be the performance, long term, of investments to ensure the long term health of the Fund.
- It was stated that the issue of the current holding of cash should be of a temporary nature and would need to be addressed, which was one of the reasons for the consideration of more immediate measures at this meeting. Opportunities to invest, in line with earlier discussions, would be explored.
- The overall proposal for the Fund was to continue to develop a suitable long term strategy for the investments, adjust the weightings on asset classes as required, continue to de-risk where appropriate and develop the strategic allocation to private markets.
- Issues around the L&G property portfolio were discussed and it was noted that the Investment Consultants, maintained a "buy" rating on this.

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 No. 47 was considered as a private item (see Minute No. 38, above) and separate confidential minutes were produced. The Minutes below provide a public record of the consideration of that item.

47. Asset Allocation Review

Considered -

The report of the Treasurer outlining the following:-

The Fund's current asset allocations, including changes that have been made since the December 2023 quarter end.

The review of the market outlook and return prospects for the Fund's investments, undertaken by officers and advisers.

Consideration of commitments to Border to Coast's infrastructure, private credit and climate opportunities programmes, and set out the option to invest in the UK opportunities programme.

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

Resolved -

(i) that the current asset allocation position including changes that had been made since the December 2023 quarter end be noted.

(ii) that a commitment to Border to Coast's private credit programme of £70 millions be agreed

(iii) that a commitment to Border to Coast's infrastructure programme of £120 millions be agreed.

(iv) that a target of 4% allocation to Border to Coast's climate opportunities programme, and the associated commitment needed to achieve it be agreed.

(v) that a target of 1% allocation to Border to Coast's UK opportunities programme, and the associated commitment needed to achieve it be agreed.

The meeting concluded at 12.25pm

SML