

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 27 November 2020 held as a live broadcast meeting commencing at 10 am.

Present:-

County Councillors John Weighell OBE (Chairman), Michael Chambers MBE, Cliff Lunn, Don Mackay, Patrick Mulligan, Andy Solloway, Helen Swiers and Angus Thompson.

Councillor Jim Clark - North Yorkshire District Councils.

Councillor Christian Vassie - City of York Council.

David Portlock - Chair of the Pension Board.

Brian Hazlehurst – UNISON retired members - observer

Copies of all documents considered are in the Minute Book

188. Welcome and Introduction

The Chairman welcomed everyone to the live broadcast meeting of the Pension Fund Committee held remotely under The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Police and Crime Panel Meetings) (England and Wales) Regulations 2020 and introduced those present.

189. 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 agenda items: 2 – Confidential Minutes only; 10 – Investment Review.

190. Minutes

Resolved -

That the Minutes of the meeting held on 11 September 2020, and the Confidential Minutes of the meeting held on 11 September 2020 were confirmed and would be signed by the Chairman as a correct record at the first available opportunity.

The Confidential Minutes of the meeting held on 11 September 2020 were not discussed, therefore, the public and press were not excluded.

191. Declarations of Interest

There were no declarations of interest.

192. Public Questions or Statements

There were no public questions or statements.

191. Public Sector Exit Payments (95k cap)

Considered -

The report of the Treasurer detailing how North Yorkshire County Council, as the administering authority for the North Yorkshire Pension Fund (NYPF), is required to have a policy for paying pensions where the Public Sector Exit Payments regulations (£95k cap) are breached before the revised Local Government Pension Scheme (LGPS) regulations are in place. The policy was recommended by the Scheme Advisory Board (SAB) and is needed so that the administration team know what benefits are to be paid in these circumstances.

There is a conflict between the £95k cap regulations which came into effect on 4 November 2020 and the current LGPS regulations if the cap is breached when an LGPS member age 55 or over exits through redundancy or business efficiency. The LGPS regulations still require the member to take payment of an unreduced pension, but the exit cap regulations may prevent the employer from paying the full pension strain cost.

The pension strain cost is the cost to the employer of providing unreduced benefits before normal pension age (NPA). Normally benefits paid before NPA are actuarially reduced to take account of the fact they are being paid early and will be paid for longer. The strain cost effectively buys out the reduction that would normally apply.

The SAB has obtained legal advice and a commentary on that legal advice is available on the Public Sector Exit Payments page of the SAB website. The Ministry of Housing, Communities and Local Government (MHCLG) has issued a letter to LGPS administering authorities recommending that where the cost of an exit including pension strain cost would exceed the £95,000 cap, LGPS members should be able to elect to receive an immediate, fully reduced pension or a deferred pension plus a lump sum equal to the capped strain cost. It was proposed to adopt the advice from the SAB and MHCLG in the interim until the LGPS regulations are amended.

It was stated that the position being proposed was not without risk as this could result in legal challenges from the employer or the scheme member, however, it was the least risk option for the Fund.

Members discussed this matter and the following issues and points were raised:-

- It was emphasised that this matter could affect anyone within the pension scheme, not just those on higher wages, as it related to the whole package paid on redundancy or business efficiency.
- It was noted that, although challenged, this had become law on the 4th November 2020, hence the need to provide a current position for the NYPF until the LGPS regulations were amended to reflect this.
- It was stated that the SAB would make representations on behalf of
- pension funds in terms of issues arising from this position, and any disputes that may occur as a result.

Resolved –

- (i) That the Committee welcomes the support from the SAB in making representations where disputes arise in relation to this position, and outlines its concerns in respect of the position that has resulted from these circumstances;
- (ii) That the approach recommended by both the SAB and MHCLG in offering the member the option of either a deferred pension or a fully reduced pension be adopted.

192. Budget/Statistics

Considered -

The report of the Treasurer on the projected outturn position for the 2020/21 budget - cost of running the Fund and the three-year cash flow projection for the Fund.

The latest forecast outturn position against the 2020/21 budget showed an anticipated expenditure for the year of £30,296k, an increase of £206k over the original budget. The report provided details of how the increase had arisen.

The cash position of the Fund was presented and highlighted the projected cashflows of the Fund over the three-year period 2020/21 to 2022/23. The forecast for employer contribution income has been revised across the three years to take account of increases in pensionable pay, a higher than forecast pay award and an increase in employee numbers. This has resulted in increases of £4.2m in 2020/21, £4.6m in 2021/22 and £4.5m in 2022/23. The updates in the cashflow forecasts had resulted in a small surplus in the overall cash position now being projected for 2020/21.

At the September Pension Fund Committee meeting Members approved the draft NYPF 2019/20 Annual Report, subject to any changes required as a result of the external audit, with any further changes required being brought back to the Committee meeting for approval. As a result of changes made to the Statement of Accounts, as part of the external audit, there had been a small number of minor changes required to the Annual Report. The main change was due to an update in the Permira market valuation as at 31 March 2020 once final valuations were provided by the Manager. The change was well below the Fund's materiality threshold. Details of the changes were set out in the report.

The following issues and points were raised during a discussion of the report:-

- As a result of the most recent forecast it was noted that the predicted negative cashflow position during this financial year was unlikely to materialise. There was still the potential for a negative cashflow in later years as the Fund matures, and plans were being developed in relation to that.
- The Treasurer stated that he was expecting the final approval for the 2020/21 Final Accounts, from the external Auditor, on the day of this meeting. The minor changes to the accounts would be circulated to Members of the Audit Committee and Pension Fund Committee.

Resolved –

- (i) that the minor adjustments to the NYPF 2019/20 Annual Report be approved; and
- (ii) that the contents of the report be noted.

193. Pension Administration Report

Considered -

The report of the Treasurer providing Members with information relating to the administration of the Fund in the quarter and updating 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 2020

Issues and Initiatives

GMP and Pensioner Data Reconciliation

Breaches Policy & Log

Administration System Project

Other Key Projects

McCloud

Exit Cap changes

Process update – payment of an exit credit

Member Training

Meeting Timetable

The following issues from the report were highlighted:-

- In respect of the Annual Benefit Statements (ABS), as of the previous week, of the remaining 529 not issued:-
88 had been issued
161 had outstanding data queries and were progressing
The remainder have been checked and do not qualify for an ABS for a variety of reasons.
- The GMP and Pensioner Data Reconciliation projects were both nearing completion and the data would then be fed into the system for processing, with those affected being contacted and arrears being paid.
- A new entry had been made to the Breaches Log in respect of 100% of the ABS not having been issued by the 31st August 2020 cut-off date. The issue

had been discussed at the recent meeting of the Pension Board where it had been decided that this would not be reported to the Regulator due to the efforts that had been made to try and meet the target.

- The Administration System project was underway and was developing in-line with the appropriate timescales. The testing of the systems would commence shortly.
- A business case was being prepared to outsource the work that will be required as a result of the McCloud judgement. It was noted that a number of Funds were undertaking a similar response to this matter, therefore, this required addressing as soon as possible. The scale and impact would be huge on Funds, with recalculations expected in the second half of next year.
- The death grant case that was discussed at the previous meeting has been referred for a legal response and a ruling is awaited.
- The Local Government Pension Scheme (Amendment) Regulations 2020 came into force in March 2020 giving administering authorities the discretion to pay an exit credit after taking into account factors such as the level of risk that the employer was exposed to during their participation in the Fund and the value of the employer contributions paid to the Fund. The Admissions and Terminations Funding Policy, approved at the Committee meeting in September 2020, had been updated to reflect the Administering Authority's position regarding payment of an exit credit. Members were asked to approve delegated authority to the Treasurer of the Pension Fund to determine when an exit credit payment should be made. Where necessary cases would be referred to the Pension Fund Committee for a decision.
- It was noted that the Meetings timetable currently showed a Committee meeting on the 19th February 2021, however, following a previous discussion at a Meeting of the Committee, it had been suggested that the County Council budget setting period be avoided for Meetings. It was proposed, therefore, that the meeting be rescheduled to take place on Friday 5th March 2021 at 10am, with a workshop meeting arranged for Thursday 4th March 2021.
- A Member congratulated the Administration Team for the excellent service they have been providing to the Fund, which was echoed by the other Members of the Committee and the Treasurer.

Resolved –

- (i) that the contents of the report be noted;
- (ii) that the contents of the Breaches Log be noted;
- (iii) that the delegation of authority to the Treasurer of the Fund to determine when an exit credit payment should be made be approved;
- (iv) that the Meeting of the Committee scheduled to take place on 19th February 2021 be rescheduled to 10am on Friday 5th March 2021, with the corresponding workshop taking place on 4th March 2021.

194. Performance of the Fund

Considered –

Report of the Investment Consultants, AON, providing details of performance and asset allocation information for the Fund along with a background to the investment markets during the third calendar quarter of 2020.

The following issues were highlighted:-

- The Fund assets increased in value by £91.9m to £4,194.7m over the third quarter of 2020.
- In relative terms, the Fund outperformed the composite benchmark by 1.4% over the quarter, returning 2.2% in absolute terms. Much of the outperformance this quarter was a result of significant relative performance from the Baillie Gifford LTGG (+12.9%) portfolio.
- In relation to the Fund's long term strategic target, the Fund's asset allocation as at Quarter 3 2020 was 9.5% overweight equity, 2.3% underweight absolute return, 3.5% underweight property, 7.2% underweight illiquid growth, 7.6% underweight illiquid credit, 0.8% underweight liquid credit, 8.5% overweight in gilts and 3.5% overweight in cash.
- No rebalancing was considered necessary.
- The markets had been particularly strong over the quarter and they continued to rise following the news of the development of a successful vaccine against COVID 19.
- The performance of the various Fund Managers, and the investments managed within the BCPP were outlined.
- Issues discussed included the property portfolio; the strong performance of equities; illiquid assets with Border to Coast and how it was too early to determine their performance as yet and the unexpected high performance of gilts.
- It was noted that lowering the risk of the Fund's investment portfolio continued to be investigated and developed, as it was expected that at some point volatility would return to the markets.

Members discussed the appended documents and the following issues and points were raised:-

- It was clarified that individual reports relating to the performance of Fund Managers were circulated prior to the meeting.
- Clarification was provided in relation to a residual balance with Fidelity, and it was noted that it would be paid back to the Fund.
- A discussion took place in relation to the equity protection that is in place and whether that was of financial benefit to the Fund. It was noted that this issue would be considered within a later report at this meeting, although it was emphasised that it was good news for the Fund when this was not required as it meant that equity investments were performing well.

Resolved –

- (i) that the contents of the report be noted.

195. Pension Board – report back by Chair on the meeting held on 29th October 2020

Considered -

A verbal update by the Chair of the Pension Board.

The Chair of the Pension Board, David Portlock, summarised the discussions at the meeting held on 29th October 2020 highlighting the following:

- The Pension Board Annual Report was agreed at the meeting and had subsequently been approved by the County Council as Administering Authority and published on the Fund website. A copy was provided for information.

- The Meeting was the first formal remote meeting of the Board since the start of the pandemic.
- A review of the Terms of Reference was undertaken to ensure that formal remote meetings could take place and to provide a process to escalate issues of dispute between the Board, the Committee and/or Officers of the pension fund that could not be resolved. The amendments were agreed at the meeting and had subsequently been approved by County Council. A copy of the amended Terms of Reference was provided for information and it was noted that these had also been published on the Fund website.
- The breach in relation to the late publication of the ABSs, as discussed earlier in the meeting, had been considered at the meeting of the Board and in view of the actions and rationale of officers to this matter, it had been agreed not to refer this to the Regulator. Also, a very few data breaches in April and May had been discussed in detail with Officers. Effective action had been taken by Officers and no further data breaches have occurred. The Board agreed not to report these data breaches to the Regulator.
- Details of Internal Audit reports are fed into each meeting of the Board. Last year the report in relation to pension fund expenditure had indicated limited assurance. A further review, a year later, had resulted in the position being substantial assurance. The Pension Board recognised the significant efforts made by officers to address this matter, and congratulated them in respect of this.
- The Board noted that a new Chair had been appointed to the BCPP Joint Committee. It had been stated that this would see a new approach to the Committee, and the Board looked forward to seeing how that developed.

Resolved -

That the Committee thanks the Pension Board for its continued work on behalf of the Fund and the details of the meeting outlined be noted.

Minute No.196 was considered in private (see Minute No. 189, above) and is the subject of a separate, confidential minute. A public summary of the item is outlined below.

196. Investment Strategy Review

Considered -

The report of the Treasurer to the Fund regarding the following:-

- (i) To recommend asset allocation changes to support progress towards the new investment strategy.
- (ii) To recommend a change in the target allocation for global equities between the Fund's investment managers.
- (iii) To update Members on the position relating to equity protection.
- (iv) To update Members on the currency hedging implementation.

Resolved –

- (i) That recommendations (i), (ii) and (iii), as detailed in the report, be deferred for further consideration at a subsequent meeting of the Committee, pending a further review of the Investment Strategy.

- (ii) That the Committee agrees to allow £400 million of equity protection to expire in January 2021.
- (iii) That the update on currency hedging be noted.

197. Such other business as, in the opinion of the Chairman should, by reason of special circumstances, be considered as a matter of urgency

There was none.

The meeting concluded at 12.45pm.

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