

North Yorkshire Council

Pension Board

Minutes of the meeting of the Pension Board held at County Hall, Northallerton on Thursday 18th April 2024 commencing at 10am.

Present: -

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:

Councillor Steve Watson (North Yorkshire Council)

Scheme Members:

David Houlgate (Unison)

Simon Purcell (Unison)

Sam Thompson (North Yorkshire Council)

Council Officers:

Harriet Clarke, Phillippa Cockerill, Stuart Cutts, Gary Fielding, Jo Foster-Wade and Tom Morrison.

In attendance:

Councillor George Jabbour was in attendance.

Two members of the public and one NYC officer observing the meeting were also present.

Copies of all documents considered are in the Minute Book

48. Welcome and apologies for absence

Apologies for absence were submitted by Emma Barbery (Askham Bryan College) and Martin Rowley BEM (City of York Council).

49. Resignations and recruitment – Report of the Assistant Chief Executive (Legal and Democratic Services)

The Chair advised of two recent resignations by Members of the Board from Gordon Gresty (Scheme Member Representative), who had been a member of the Board since 2015 and David Hawkins (Employer Representative). The report summarised the recruitment exercise that would be undertaken to fill the vacancies.

The Chair pointed out an error at paragraph 3.2 which referenced 'the Committee' rather than the Board and asked that this be amended.

Resolved –

- (i) That Gordon Gresty and David Hawkins were thanked for their services to the Board
- (ii) That the recruitment process be undertaken.

50. Exclusion of Public and Press

It was noted that there was an exempt item relating to Minute number: 55(b) – Confidential Minutes of the Pension Fund Committee. As the contents of the Minutes were not discussed there was no requirement to exclude the public from the meeting.

51(a) Minutes of the meeting held on 11th January 2024

Resolved –

That the Minutes of the meeting held on 11th January 2024, having been printed and circulated, be taken as read, confirmed as a correct record, and signed by the Chairman.

51(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. An update would be reported to the Board as soon as details were available.

Other matters including the Government's call for the next steps of pooling arrangements, the Pensions Regulator's (TPR) new General Code of Practice and the Business Continuity matter would be addressed later in the agenda.

Resolved -

That the report be noted.

52. Declarations of Interest

There were no declarations of interest.

53. Public Questions or Statements

Howard Green of Fossil Free North Yorkshire outlined the following:-

We know that the Pension Board does not have any power over how the pension fund is invested. However, we do think that the board should be aware of the broad arguments concerning those investments of the fund that are in fossil fuels- oil, coal and natural gas, and of the associated governance concerns.

Science is clear that the world must drastically reduce its consumption of FF if we want to avoid the worst of the climate chaos caused by rising global temperatures.

The only way of making this sort of impact - 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 stop digging FF out of the ground.

None of the fossil fuel majors have business plans that are compliant with limiting warming to 1.5o (i.e., Paris compliant) and Shell and BP have both in recent months significantly reduced their climate ambitions.^{1,2}

NYPF currently invests 1.3% of the total fund in fossil fuels which amounts to £55-60 million. Though this is a small proportion of the total fund, it is 5-6x the £10 million that the new mayor will have at their disposal to support the net zero transition. This percentage has fallen over recent years (from £73 million in 2021) but we question how it can be in any analysis acceptable for a council that has declared a climate emergency and a commitment to address its own emissions reductions to continue to finance the industry responsible for over 75 per cent of global greenhouse gas emissions and nearly 90 per cent of all carbon dioxide emissions.³

An increasing number of LGPFs and other large pension funds are divesting from fossil fuels. Conservative-run Wiltshire Pension Fund recently committed to divestment.⁴ The world's 10th largest pension fund, PFZW (in the Netherlands) has divested 2.8 billion euros out of almost all oil and gas companies (incl. bp, Shell and TotalEnergies) because they have all missed the fund's deadline to bring in a "convincing and verifiable" climate strategy.⁵ West Yorkshire Pension Fund recently decided to increase investments in sustainable projects, stop all new investments in fossil fuels, and review the impact of its approach to engagement.⁶ And 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".⁷

It is against this background that we have been petitioning the NY pension fund committee and Border to Coast pension partnership to divest from fossil fuels and re-invest in sustainable portfolios which we all know is the direction of travel.

1. <https://www.carbonbrief.org/shell-abandons-2035-emissions-target-and-weakens-2030-goal/>
2. <https://www.euronews.com/green/2023/06/15/shell-joins-bp-and-total-in-u-turning-on-climate-pledges-to-reward-shareholders>
3. <https://www.un.org/en/climatechange/science/causes-effects-climate-change>
4. <https://www.wiltshirepensionfund.org.uk/article/8364/Our-plan-for-fossil-fuel-divestment>
5. [Dutch healthcare pension fund ditches investments in oil majors | Reuters](#)
6. [Fossil free breakthrough for West Yorkshire Pension Fund | Fossil Free West Yorkshire Pension Fund \(wordpress.com\)](#)
7. <https://drillordrop.com/2023/06/28/east-yorkshire-backs-fossil-fuel-divestment/>

Margaret Jackson, GP, medical educator and climate activist, of Fossil Free North Yorkshire outlined the following:-

We have specific governance concerns about our pension fund's fossil fuel investments.

1. Stranded assets: The world is rapidly transitioning to renewable energy. And, as more and more institutions divest, FF become more risky in the medium to long term - renewable sources of power are becoming more reliable, cheaper and ensure greater UK energy independence. The longer we wait to divest the more likely it is that fund values will collapse. This could happen very rapidly. Continued fossil fuel invested funds therefore become a material risk to future pension values.
2. Climate modelling: Two recent reports^{1,2} show that pension funds may be risking pensions by relying on economic research that ignores the science. 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 tipping points, sea-level rise and involuntary mass migration, are largely excluded from these models. Some models even implausibly show the hot-house world to be economically positive.

NYPF uses AON to provide climate modelling. AON uses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in undertaking climate modelling. The TCFD is specifically criticised in one of these reports¹(and see App.1 below).

North Yorkshire Pension fund has a fiduciary duty to review the climate modelling that is being used and ensure that it is fit for purpose.

3. Fiduciary duty: The Financial Markets and Law Committee (FMLC) has issued guidance specifically for pension funds at the request of a group of House of Lords peers^{3,4}.

Fiduciary duties exist to ensure that those who manage other people's money consider the long-term risks to, and consequences of, investment decisions. There has been, however, confusion about the way in which system-level risks, such as the climate and nature crises, should be considered.

The guidance is summarised in my notes submitted to this meeting (see App.2 below). In brief, the guidance makes clear that climate risk must be considered and that fiduciary duties need to be applied looking through a wide lens.

4. Engagement: North Yorkshire Pension Fund (and Border to Coast Pension Partnership) rely on engagement with the industry as the mechanism for addressing climate emergency mitigation. Yet there is no evidence that this has ever been effective in getting an organisation to change its core business. At the last NYPF committee meeting, it was requested of the committee by Cllr. Paul Haslem, NY Climate Champion, that engagement activities should be recorded with a view to evaluating their success or otherwise. The board should be aware of this and hold the PFC to account on this. Relying solely on a strategy of engagement without any mechanism to evaluate its efficacy appears to be wholly inadequate.

My question to the board is: to what extent are you already aware of these issues with relation to fossil fuel investments?

References:

1. <https://carbontracker.org/reports/loading-the-dice-against-pensions/>
2. <https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf>
3. <https://fmlc.org/wp-content/uploads/2024/02/Paper-Pension-Fund-Trustees-and-Fiduciary-Duties-Decision-making-in-the-context-of-Sustainability-and-the-subject-of-Climate-Change-6-February-2024.pdf>
4. <https://www.peersfortheplanet.org/post/new-guidance-for-pension-funds-on-how-to-consider-climate-and-nature-in-investments-decisions>

Appendices:

App. 1 from <https://carbontracker.org/reports/loading-the-dice-against-pensions/> p.23

"In a joint report by the Institute and Faculty of Actuaries and the University of Exeter (Trust et al. 2023), co-author Tim Lenton touched on the topic of this report, the extent to which dubious predictions of minimal damages from climate change have affected the formation of policy on climate change:

"some economists have predicted that damages from global warming will be as low as 2% of global economic production for a 3°C rise in global average surface temperature. Such low estimates of economic damages – combined with assumptions that human economic productivity will be an order of magnitude higher than today – contrast strongly with predictions made by scientists of significantly reduced human habitability from climate change.

It is concerning to see these same economic models being used to underpin climate change scenario analysis in financial services, leading to the publication of implausible results in the Task Force on Climate-related Financial Disclosures (TCFD) reporting that show benign, or even positive, economic outcomes in a hot-house world. This jars with climate science, which shows our economy may not exist at all if we do not mitigate climate change." (Trust et al. 2023, p. 4.)"

App. 2 from <https://www.peersfortheplanet.org/post/new-guidance-for-pension-funds-on-how-to-consider-climate-and-nature-in-investments-decisions>

The FMLC guidance summary:

Climate risk is always material – it can no longer be characterised as "too remote and insubstantial". And uncertainty about the subject of climate change and its causes and consequences does not mean that it can be ignored.

Financial factors need to be considered at a number of levels: at the level of a specific asset or investment, at a portfolio level, and at the level of whole economies material to the pension fund.

Pension funds need to go beyond statutory minimums – pension fund trustees cannot leave the relevance of the subject of climate change to what is required by current legislation and regulation because that approach would not address all the risk.

Diversification is not enough – With climate-change related risks that are systemic, it is unlikely that diversification alone of a portfolio will be enough to avoid all the risks in the same way that non-systemic risks might be diversified away from. This implies that pension funds have a legal duty to carry out stewardship with the companies in whom they invest and with policymakers, where this helps to further manage risk.

Pension schemes can better manage climate risk by investing in firms who themselves take climate risk seriously.

In response to the public statements and question, the Chair asked Board members for any comments.

It was noted that climate change risks in relation to the investments made by the Pension Fund had been raised as a regular issue over the last few years. It was clarified that whilst the Board had no involvement in investments for the Fund, Board members could pass any comments received onto the PFC.

Tom Morrison, Head of Investments, advised the public speakers that a response to public statements of a similar nature had been issued at the previous Pension Fund Committee of 1 March 2024, which were available to view in the meeting Minutes. The formal written response that had been issued set out that the approach to investing in oil or gas companies was to engage with companies to influence the pace of transition to a low carbon economy, rather than divest, as it was felt that divesting was likely to have a negative impact down the line. Tom explained that oil and gas companies may become renewable energy companies in the future and suggested that the reason for the recent slow rate of progress was influenced by world events but that the Fund was doing all they could to engage with companies in the transition through Border to Coast Pensions Partnership (BCPP). He also explained that a review of the Fund's approach to responsible investment took place yearly, which considered climate change policies.

In response to a question from the Chair, it was confirmed that the Fund's current level of investment in fossil fuels was around £50-60m. In response to a further question about reducing fossil fuel investment, it was clarified that other investments actively being considered were renewable energy, battery storage and carbon capture investments.

In response to the discussion, Margaret Jackson commented that pension funds should divest from oil and gas companies within a specified timeframe of 5 years. She expressed a lack of confidence in engaging with oil and gas companies as she felt there was little evidence to support that engagement was effective. Margaret Jackson noted that investing in renewables was a challenge, but that the investment was key to change the algorithms that are used.

Board members agreed to recommend that fossil fuel investments continue to be actively considered by the Pension Fund Committee.

In response to the various points that were raised, the Treasurer of the North Yorkshire Pension Fund (NYPF), Gary Fielding, commented that the long term duty of the Fund was intertwined with reduced exposure to fossil fuels and a more sustainable approach, but that there were lots of barriers to achieving this at the moment such as global events.

The meeting was adjourned from 10:40 am – 10:47 am.

54. Annual Discussion with the Treasurer of the North Yorkshire Pension Fund

The Treasurer of the NYPF, Gary Fielding, attended the meeting for his annual discussion with members of the Board. The following points were highlighted:-

- The previous year had been very busy, and the performance on investments was going well. The pressure on officers and resource issues was however noted.
- Despite the recent turbulence in the markets, the overall funding level remained above 100% (114%), which was a good position to be in.
- From a governance perspective, the PFC had been able to produce a high level of challenge, and despite recent changes in membership there was no apparent reduction in skills and knowledge, with Members actively engaging in discussions.
- It was reported that there was now greater diversification across individual fund managers and contribution rates may fall in the future.
- The investment strategy was constantly being reviewed, especially in relation to climate change risk.
- Involvement with BCPP over the last 6 years had provided good opportunities, and it was stated that the relationship between BCPP and PFC Members had matured significantly in the last year and was supportive but challenging in nature.
- In terms of future pooling arrangements, it was envisaged that the majority of the Fund's investments would be managed through BCPP, although only where they fitted the Fund's strategy and interests.
- It was noted that Government was still considering a second phase of pooling as they wanted enhanced economies of scale. Further details were still awaited on the possibility of the amalgamation of existing pools.
- In response to a query about whether the number of Pension Funds would be reduced going forward, the Treasurer commented that the current priority for each Fund was to ensure that they delivered what they each needed to do. It was stated that merging systems and data together would be a huge challenge given the current level of resource available but that any future opportunities to share and collaborate should be considered.
- In terms of upcoming challenges facing the Fund, global turmoil and a downturn in markets were identified as the biggest challenges. Other areas of risk were completing major projects with challenging resource requirements such as McCloud and getting engagement from employers or pensioners.
- Members discussed the impacts of Local Government Reorganisation and TUPE transfers in relation to pensions.
- The Good Governance review was highlighted as an ongoing issue. It was reported that the new TPR General Code of Practice was now available as of 27 March 2024.

Resolved –

That the Treasurer of the Fund be thanked for his participation at the meeting and the issues raised be noted.

55(a) Pension Fund Committee – Draft Minutes of Meeting held on 1st March 2024

Considered -

The draft minutes of the meeting of the Pension Fund Committee held on 1st March 2024.

Resolved –

That the Minutes be noted.

55(b) Pension Fund Committee – Draft Confidential Minutes of Meeting held on 1st March 2024

Considered -

The draft confidential minutes of the meeting of the Pension Fund Committee held on 1st March 2024.

Resolved –

That the Minutes be noted.

56. Pension Administration

Phillippa Cockerill, Head of Pensions Administration, provided Members with an update on key initiatives undertaken by the Administration Team of the NYPF. The report included, as an Appendix, the report that was provided to the PFC at their March 2024 meeting.

The following issues were highlighted:-

PFC Report

The PFC report from 1st March 2024 meeting was provided as an Appendix.

Breaches

There had been no new entries in the breaches log since the previous meeting of the Board.

Annual Benefits Statements (ABS)

The process for the 2024 ABS was underway. This would be easier to do as a number of employers were now on i-Connect.

Major projects

The i-Connect project was progressing well, with 186 employers onboarded and only 51 remaining. It was noted that the majority of the remaining employers were smaller ones with multiple contracts meaning that quick progress should be made. The target completion date to have all employers onboarded was reported to be 31st March 2025. In response to a query from the Chair, it was confirmed that progress had recently slowed, as expected, due to year end procedures.

The new TPR General Code of Practice was now available, with the Aon compliance checker tool being used. The Board would be updated on progress going forward. Training for members of the PFC and Pension Board would be provided in due course.

The McCloud project was progressing, with the testing of the bulk calculations in the Test environment underway. Once as many errors are corrected as possible, the calculations would be run in the Live environment, ready for it to go live in early May.

In relation to the updating of the Disaster Recovery Plan, a meeting had taken place with the Resilience and Emergencies' team back in March, and it was anticipated that more rapid progress would now be made in drafting and finalising up to date plans, which would be completed by the summer. The Business Impact Analysis plan had been completed, whilst the Incident Management Plan was still in progress.

Business Plan

A revised plan, showing details of achievements during 2023/24, proposals carried forward to the new plan for 2024/25 and new initiatives were submitted to, and approved by, the March meeting of the PFC.

It was clarified that there was a typographical error within Appendix 4 of the report, relating to the 2023/24 budget for Pooling: Governance & Projects.

Local Government Pensions Committee (LGPC) Bulletins Log

Details of recent LGPC bulletins, and the response to those, were set out in the report.

Resolved –

That the report and breaches log be noted.

57. Internal Audit Reports

Stuart Cutts, Assistant Director – Audit Assurance for Veritau, provided the Pension Board with an update on Internal Audit activity.

Details of the audit plan for 2023/24 were set out in the report with the audits of aspects of expenditure, income and investments taking place and reports from those audits expected later in the year. Following discussions with the Pensions Investment Manager and Senior Accountant, the agreed programme of work was summarised at Paragraph 3.

On the topic of business continuity and disaster recovery, Stuart referred to asset management and cyber security issues.

In response to a query from the Chair, it was confirmed that an update on expenditure was anticipated to be provided at the following meeting in July.

Resolved -

That the report be noted.

58. Training

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

Members requested that any further training updates be circulated in due course.

Resolved -

- (i) That the Hymans Robertson online training package continue to be accessed by Members and reported back accordingly.
- (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.

59. 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 2024/25.

Resolved -

- (i) That the Work Plan, as detailed in Appendix 1 to the report, be noted.
- (ii) That the dates of ordinary meetings for 2024/25, as detailed in the report be noted as follows:-

Thursdays at 10am

4th July 2024
24th October 2024
9th January 2025
3rd April 2025

The meeting concluded at 12.05pm.