

North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 20 April 2017 at County Hall, Northallerton commencing at 9.30 am.

Present:-

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:

County Councillor Mike Jordan, Councillor Ian Cuthbertson (City of York) and Louise Brandford-White (Hambleton District Council).

Scheme Members:

Stella Smethurst, Mandy Swithenbank (GMB) and Gordon Gresty.

In attendance:-

County Council Officers: Amanda Alderson, Anna Binks, Suzanne Berry, Tom Morrison, Josie O'Dowd and Jo Wade.

Copies of all documents considered are in the Minute Book

77. Apologies

Apologies for absence were received from Ben Drake and Phil MacDonald.

78(a) Minutes

An omission at Minute 74 was highlighted regarding training modules and it was suggested that that table be included, other training information had also been omitted.

Resolved -

That the Minutes of the meeting held on 26 January 2017, having been printed and circulated, were taken as read and confirmed and signed by the Chairman as a correct record – noting the above omissions.

78(b) Action Record

Tom Morrison suggested that certain actions could be removed now that they were clearly complete, for example Item 15. He also observed regarding the membership of the Pension Board an appropriate period for review would be four years to enable full reflection after a suitable bedding in period.

It was suggested that the question of how to recruit and appoint Pension Board Members also be reviewed at the same time. It was noted that David Portlock and Josie O'Dowd would look at the issue in terms of process to make such future changes and reflect these in the Constitution, including the role of the Constitution Working Group and County Council.

Item 26 - the Risk Register was queried and it was confirmed that this is updated in December and June each year and it goes to the Pension Fund Committee each July along with other key documents. It was suggested that the Pension Board could also look at the Risk Register following consideration at Pension Fund Committee. Tom Morrison commented upon the practice of other Pension Boards some of whom consider a particular risk at each Pension Board meeting, therefore avoiding any particular agenda being dominated by the Risk Register. Members supported this suggestion which they felt would enable the Pension Board to explore areas of concern in more detail.

Resolved -

That the report, and issues raised, are noted.

79. Declarations of Interest

There were no declarations of interest. Ian Cuthbertson queried a potential conflict of interest regarding a role he occupies for the City of York Council regarding museums.

80. Exclusions of the Public

Resolved –

That the public be excluded from the meeting during consideration of each of the items of business listed in column 1 of the following table on the grounds that each involves the likely disclosure of exempt information as defined in the paragraph(s) of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local government (Access to Information)(Variation) Order 2006 as defined in column 2.

Item on the Agenda	Paragraph No
9 - Appendix 2	3

81. Public Questions or Statements

There were no questions or statements from members of the public.

82. Review of Terms of Reference

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing the Board with an opportunity to review the Board's Terms of Reference.

Tom Morrison advised that the Terms of Reference had been established two years ago on the basis of information from the Scheme Advisory Board, he noted that these tended to be common across all Pension Boards at the time of inception. He suggested that it might be timely to now compare the North Yorkshire Pension Board Terms of Reference with those of other local authorities and decide whether there is any merit in a formal review. He advised that he was not aware of any concerns but

noted others may wish to see changes - perhaps around the recruitment provisions for Board members, for instance. He also added that trainer Peter Scales had not raised any concerns during the workshop held with Members.

Stella Smethurst wished to know if there are any significant differences between Authorities' Terms of Reference and Tom Morrison advised that they were all very similar. Where there are differences, these generally relate to the question of composition of the Pension Board.

Ian Cuthbertson suggested that the Terms of Reference could be used to clarify relationships between Pension Fund Committee and Pension Board. He acknowledged the parallel course of the two bodies, with the Minutes of Pension Fund Committee appearing on the Pension Board agenda and vice versa. It was agreed to maintain the status quo for the present time and review if any issues arise later in the year.

Resolved -

That the Terms of Reference as detailed in Appendix 1 to the report are re-affirmed.

83. Preparation of an Annual Report

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) asking the Board to consider the preparation of an Annual Report of the Pension Board and determine to where this will be reported.

The Chairman wished to start the process to consider what should be included in the Annual Report and he hoped that one report would suffice for the following recipients: Pension Fund Committee, the Executive and the Scheme Advisory Board. He suggested that the Executive Summary for the report could perhaps be included in the Pension Fund Annual Report. Members were keen to see the draft report come back to Pension Board prior to submission and the Chairman advised of the intention to have a draft available for discussion at the next meeting. It was reiterated that an Annual Report must be completed now that the Pension Board is in its second year of operation. The July meeting will consider the draft.

Tom Morrison advised that the Annual Report usually goes to the Pension Fund Committee in September and the formal deadline for submission has historically been December, and he stated this may be needed sooner in future. He explained that the timetable for accounts is changing, therefore there may need to be a consequential review of the timing of committee reports.

Resolved -

- (a) That the content of the Annual Report based on the advice provided is determined, with a draft to be submitted to the next meeting on 20 July 2017.
- (b) That the Annual Report should be submitted and the same report be reported to the various different bodies determined.

Item 9 was taken next to enable Ian Morton to attend another meeting.

Appendix 2 to the following report was considered in private and the public have no right of access. This is a public summary of business conducted in private.

84. Internal Audit Reports

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing an update on internal audit activity.

Ian Morton advised that the report provided an overview of three audit reports undertaken in 2015/16 the detail of which was set out in the Appendices to the report. He stressed that the income report is different as a consequence of the 2014 scheme and the impact of this. He advised that this reflects the challenge of getting information back from employers. He explained Audit's role in seeking to identify good practice among the Employers. He stated that the audit for 2016/17 was presently being concluded, advising that it will be ready for the July meeting of Pension Board. He also confirmed that the plan for 2017/18 is to be agreed with officers and then it will be reported to Pension Board. Ian Morton stated that he is due to attend the CIPFA Audit and Assurance Course at the beginning of May which he felt should prove to be a source of good ideas.

The absence of assurance regarding the income report was queried and Ian Morton advised that this was due to the different formats and the variance in results reported - with some schemes performing very well and others less so. He stressed that this had still been a very useful fact finding exercise. At this point in proceedings the Chairman David Portlock acknowledged the position of Louise Branford-White as the 151 Officer for Hambleton District Council, this was noted for the record. She confirmed that she had had no involvement in the preparation of the Hambleton return reflected in the report and therefore she did not have a conflict of interest. The Chairman wished to know if an assurance would be given the next time the report was compiled and Ian Morton advised that this would be the case for 2016/17. He noted that the process had been inefficient previously involving much unnecessary duplication as a result of data not being provided in the correct format. He felt that such data should have been sense checked before it reached the Pension Fund Committee. He noted some of the trivial issues which had been identified such as not completing returns to two decimal places and local authorities reformatting data themselves. Assurances were sought that all employers have been informed of these learning points and Anna Binks confirmed that explicit advice and checklists have now been introduced to clarify and reiterate the requirement. This includes a tick list which must be signed off. On this basis Ian Morton advised that more assurance should be available for the present year, noting that the checklist provides more grounds upon which to challenge discrepancies.

Tom Morrison also advised that in accordance with the new Regulations, paperwork to back-up the income returns is being sought, in particular clarifying whether this is employer or employee status. He noted that costs may now be recharged as a result of having to chase-up information, billing for time wasted, and so on. Tom Morrison confirmed that no recharges had as yet been imposed however employers have been advised that this is to be introduced and repeat offenders will definitely be billed in future. It was confirmed that although the checklist itself does not make specific

reference to this, the change has been advised under the admin arrangements. Members were pleased to hear of these changes and felt it was only appropriate that the Fund should not bear the cost of such issues. Tom Morrison advised that eventually self-service portals will be available which will further encourage compliance. A member said that it would be interesting to know the impact of such fees and penalties on employers. Another noted that the new regime will necessarily highlight errors and therefore create embarrassment for the relevant employers. Tom Morrison acknowledged this, hoping that in doing so it will compel employers to get their returns right. The Chairman wished to ensure that once the charges start, that the value of the recharges is flagged up to the Pension Fund Committee.

Regarding Appendix 2(???) the rating of reasonable assurance was noted and Ian Morton advised that operating two systems has caused additional work but stated this was not a major issue. It was confirmed that completion by 31 May 2017 deadline appeared to be on track. Concern was expressed about consequent problems for the Pension Fund and the member asked if the checklist could be used as a means to flag this particularly around the annual reconciliation - also noting that monthly would be preferable to annual. Anna Binks advised that whilst some employers achieved the monthly return for example for new starter information, this was not always so for continuation/multiple employment/leaver information. She advised that this type of work is the most time consuming. For NYCC record keeping this has been done but she noted records do not always match. Manual interventions for new starters are on track but there are problems elsewhere. She noted that other employers do not have as many multiple employment scenarios and that this is an issue for larger employers.

Regarding Appendix 3 the level of high assurance was noted along with the minor action points. Regarding the 2016/17 audit regarding TPR requirements, Anna Binks advised that North Yorkshire is compliant. Ian Morton advised that Internal Audit had not checked this previously but this may be done in future. Tom Morrison commented that to a degree it is a question of perspective - when anything goes wrong this could be deemed to be an instance of non-compliance with the regulations. He added that assessment seeks to identify a systematic failure, evidence of endemic issues within a Fund. Internal Audit look for evidence of procedures being in place to promote compliance and it was noted that this is a key part of the Section 151 Officer role. Regarding the forthcoming quarterly report, Ian Morton confirmed that the emphasis on compliance pervades the investment, income and expenditure reports, and he confirmed that other employers are responding better this time.

Resolved –

The covering report and the attached Internal Audit Reports are noted.

85. Draft Minutes of the Pension Fund Committee meeting held on 23 February 2017 and the Special Meeting held on 31 March 2017

A member commented regarding Item 166 Income and Expenditure, that surpluses are declining year on year, being down to £8m in 16/17. It was suggested that the £40m plusage is distorting the position and without this a deficit would be reported. Comment was also passed regarding the cost of pooling, the member stating that stating that £350,000 is not the full figure - given the ongoing costs as a result of the new arrangements. Assurance was sought that the true position is being noted. Tom Morrison advised that the £350,000 is the set-up fee, 1/12th of the full sum split between the relevant authorities, to establish pooling arrangement: systems, property and so on. He advised that the transition of assets costs will follow but then the

savings accruing as a result of the pooling should offset some of those costs. He confirmed that the submission regarding the pooling arrangements suggested that costs should be recouped between five and seven years. For some bodies will this will be longer and for others sooner. He assured Members that all the relevant factors were reflected in the calculation and the benefits of economies of scale were also included. On the cashflow question he noted that the position was slightly worse than suggested in the report, he commented upon the ability to generate income due to the bonds which are held provides a ready source of income to be used as needed. He noted that there is £150m of buying and selling each year representing a very significant sum, and if tapped into there would not be a requirement for disinvestment. He felt that this will provide more than enough income to fill the gaps in years three to six. The member sought further assurance that contributions are covering expenditure and Tom Morrison confirmed that this was the case, and this will be reviewed by the Pension Fund Committee - who will maintain a watching brief on income generation activities. He reiterated that there is no need to disinvest to pay pensions. The member also commented upon the growing emphasis on the markets and stated that pooling heightens this. He felt the present representation of the position was misleading and he wished to see on-going costs documented more clearly. Tom Morrison commented that transition costs result in a variance in the figures of £12m to £40m. He accepted that this is a huge variance and he said that it is hard to say exactly how the position will look in years two, three and four. He re-emphasised the need to establish the entity and recover the costs between five to seven years. It was noted that transition costs will come in from 2018/19. Tom Morrison stated that transition costs will not affect the cash flow value of the Pension Fund but will just reduce the asset value. The member urged that the arrangements are transparent so that the position can be understood. Tom Morrison assured members that transition costs are at the top of the Pension Fund Committee agenda.

Resolved -

That the draft Minutes of the Pension Fund Committee meeting held on 23 February 2017 and the Special Meeting held on 31 March 2017 are noted.

86. Review of employer and Administering Authority Discretions - Update

This item was deferred for consideration at a future meeting.

87. Investment Strategy Statement

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing Pension Board Members with an opportunity to formally confirm that the ISS has been prepared in accordance with the Regulations and allowing the Board to raise anything that they would like to see in future versions of the document.

Tom Morrison advised that the strategy would be published by the due deadline and will reflect comments received from the Chairman. He explained that this was the first attempt to produce the document as required by the Regulations - this draft has now been compared to those of those of other Funds and an updated version will come to Pension Board in July. A request was made for the revised Statement to be circulated to Pension Board members before the Chairman attends the next Pension Fund Committee. A member apologised for not providing comments before now and asked that paragraph 7 on page 172 be amended to spell out that the Pension Fund Committee and the Pension Board were consulted on the issue. Tom Morrison pledged to circulate the revised draft of the document in mid May.

Resolved -

- (a) That the ISS has been prepared in accordance with the Regulations is confirmed.
- (b) That the topics raised for future versions of the document is noted.

88. Triennial Valuation

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) requesting confirmation that the 2016 Valuation process has been carried out in accordance with the Regulations and providing an opportunity for Pension Board Members to raise any areas of improvement for future Valuations.

The Chairman and Tom Morrison confirmed that there were no conflicts for members of the Pension Board. Tom Morrison spoke of the intensive process and huge effort made by Anna Binks and the team - this being an iterative process following queries. The contribution requirements were set and it was explained that the new actuary approach has had an impact - as a different approach is being adopted which helps mitigate the risk of going out of business upon exit from the Fund.

A member asked when a guarantor is required and Tom Morrison advised of a change of perspective regarding what a guarantee does - it is now a more holistic view and a different form of guarantee which avoids a cost to the Pension Fund. It is a more sustainable approach and an improvement in the valuation is evident as a consequence of this. Another member reiterated the point stating that the employer pays more now, so that the Pension Fund does not lose out in the longer term. It was noted that Mercer have changed their approach and the result is something much closer to the AON approach. Tom Morrison advised that the valuation had increased from 73% to 88%. It was felt that Mercer had been overly prudent and AON expect to achieve results closer to the Government's assessment.

David Portlock noted that as at today's date, 20 April 2017, the assessment had been to the Pension Fund in February - although the valuation had not been signed off then. He noted there had been some changes since that time and delegated authority had been granted for the information to be updated prior to coming to Pension Board. The overall value of £3bn was noted. There was some detailed discussion regarding the disclaimer at the bottom of page 212 and the checking processes employed. Responding Tom Morrison described the thorough verification process which is employed via Annual Benefit Statements, advising that there can be up to seven checks with employers. He noted that this year over and above what North Yorkshire normally do, AON have also undertaken a validation exercise and the outcome of this shows that the data quality is good. There was also discussion of life expectancy and the absence of some data from 2013. After answering these Tom Morrison confirmed that the specific requirements have all been complied with.

Resolved -

- (a) That the 2016 Valuation process has been confirmed out in accordance with Regulations is confirmed.
- (b) That the areas for improvement for future Valuations is noted.

89. LGSP Pooling - Update

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) providing an update on the progress made towards the LGPS Pooling arrangements.

Tom Morrison advised that the report sets out the process that the Council has been through to establish the pooling arrangements. The other 11 Funds have taken their proposals to their full Councils in draft form and NYCC have asked the Pension Fund Committee to review the final draft - an additional meeting was held in March to undertake this. The process of finalising the proposals has involved senior officers and Members - more so in North Yorkshire than in other Funds. David Portlock advised of the robust discussion which had taken place at the meeting of 31 March and he drew Members' attention to the draft Minutes of that meeting had lasted over two hours. It was also noted that subsequent officer meetings had taken place and Tom Morrison described the three work streams. Governance - the documents are ready for sign-off, People- regarding the recruitment of Board Members and associated property, Investments - procurement exercise to source advice and also related IT requirements. A Joint Steering Group has been created to look at the People work stream involving the seeking of suitable property in Leeds as a central and sustainable location with good public transport, it is also a finance hub for the region. Regarding recruitment of the Board - an advert for the non-Executive Chair and Adviser is going into The Times and consultant Odger Berdston are assisting with this. It was noted that the timescale for this is somewhat problematic. Recruitment for the Central pooling body is ahead of that for North Yorkshire and there is a need to stagger recruitment to avoid any disadvantages to this Fund. It was also noted that six out of 12 authorities have elections forthcoming and a General Election has now been announced, and finally the summer holiday season is then imminent. Interviews for the Chief Executive and Independent Chair are expected to take place in mid June with other appointments following on. There was some discussion of the likely salary level and Tom Morrison confirmed that these had been discussed for senior posts and agreed by all the local authorities involved. He stressed that these were not publicised but they are commensurate salaries. It was noted that these are a flat salary level, it is not performance related pay. A member stressed that Pension Board Members must be kept informed regarding the structural matters. He was keen to understand how the positions will relate to the Pension Fund Committee, the Pension Board and he asked for a graphic representation of this.

Tom Morrison advised that the inter-authority agreement has been confirmed the role of the Pension Fund Committee is to advise and guide the pooling company. He explained that the shareholder agreement for the entity and the company itself will deal with hiring and firing. The local authority has control via the Teckal agreement which gives more control than for normal company for shareholders. The question of potential conflict was raised and the role of the joint committee discussed. A member commented that Unison feel strongly that at least one member should be involved. She accepted that the Pension Fund Committee position is known but she still wished to press the point regarding representation. David Portlock recalled the facility to appoint co-opted members and suggested that this might assist. Commenting upon the Member Steering Group Tom Morrison stated that he felt the joint committee needs to be the 12 Funds however he accepted that they could have non-voting co-optees. He suggested that the issue be revisited subject to Scheme Advisory Board guidance. David Portlock hoped to see this argument advanced and Tom Morrison stated that other authorities have expressed this view also.

There was discussion on the role of the host authority and procurement lead and the need to closely to monitor the costs incurred. Tom Morrison confirmed that the governance support is to be provided by Leeds City Council and he confirmed that all partners are keen to closely monitor the costs.

Resolved -

That the report is noted.

90. Training

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Service) providing an update on Pension Board Member training.

It was agreed that the clerk should update the training record.

The Chairman David Portlock is to attend a forthcoming 'Pension Boards – 2 years on' event and he noted that further LGPS events would also be coming up.

A member suggested that training regarding cyber security would be beneficial for Pension Board members – advising that Mazars had recently organised this for City of York Council. Tom Morrison agreed to explore this and the member offered to help facilitate this at York if this was of assistance.

Resolved -

- (a) That the update regarding any Pensions Regulator modules still to be completed and likely timescales for this, and details of which of the modules Members consider to be of most use is noted.
- (b) That Members continue to identify any appropriate training needs, including any training events suggested by the NYPF Independent Observer.

91. Work Plan

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) detailing areas of planned work by the Pension Board.

The Chairman advised that he would review this in detail with the Clerk following his return from leave. It was noted that item was completed, 2 and 3 are already on the work plan, and the timeliness of 4 was considered. Tom Morrison suggested that the Pension Board may wish to review how investment costs are changing – but noted that it is difficult to acquire comparative data at present as this is an evolving issue. It was accepted that the original work plan has been overtaken by events given the advent of Pooling. The Chairman urged caution regarding over ambitious targets, given members have 'day jobs' too. He stressed the need to achieve an appropriate balance of what's achievable in a reasonable timescale. Tom Morrison confirmed that officers of the Fund will respond to comments and queries, and he encouraged members to devise their own lines of enquiry. Concluding the Chairman stated that he would seek volunteers to take different work streams forward at the July meeting.

Resolved -

- (a) That the updates to the Work Plan as set out in Appendix 1 to the report were reviewed and agreed.
- (b) That the timetable for taking topics forward was considered.
- (c) That issues that individual Board Members would consider leading on and provide a short scoping report on, are to be determined at the July meeting.
- (d) That the clerk is notified of any requests for supporting resources which may be required to take the reviews forward.

92. Any other Urgent Business

The Chairman expressed concern regarding succession planning following Tom Morrison's departure. Tom Morrison responded advising that Amanda Alderson will take on governance and investment including support to the Pension Board. He stated he was not clear if his role is to be directly replaced and the Chairman agreed to take this matter up with the Corporate Director of Strategic Resources Gary Fielding. Finally the Chairman recorded thanks on behalf of the Pension Board to both Tom Morrison and Anna Binks who were both leaving the Authority after many years' service.

The meeting concluded at 12.30

JO'D