

North Yorkshire County Council

Pension Board

Minutes of the meeting of the Pension Board held on Thursday 12 October 2017 at County Hall, Northallerton commencing at 10.00 am.

Present:-

Members of the Board

David Portlock (Independent Chairman).

Employer Representatives:

County Councillor Mike Jordan, Councillor Ian Cutherbertson (City of York Council), Louise Branford-White (Hambleton District Council) and Phil MacDonald (Hull University).

Scheme Members:

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

In attendance:-

County Council Officers: Amanda Alderson, Phillippa Cockerill, Josie O'Dowd, Jo Wade; Rebecca Madden and Ian Morton (Veritau)

Copies of all documents considered are in the Minute Book

105. Apologies

There were no apologies for absence.

106. Vacancy for Scheme Member Representative

The Chairman, David Portlock, advised that Ben Drake had resigned from his position with the City of York Council and therefore from the Pension Board also. Appreciation and thanks were recorded for his contributions to both Pension Board and also the Pension Advisory Panel, previously. Stella Smethurst advised that Unison are seeking a replacement representative and are checking a potential nominee at the present time. Mandy Swithenbank advised that she had been in touch with her York Branch convenor on this matter. The advert for the vacancy had been published from August to 11 September, and unfortunately no applications were submitted. Therefore the vacancy for a Scheme Member Representative still exists – the Chairman David Portlock confirmed there is no presumption that this will be filled by a Unison Member. He advised that any appointment will follow the usual application and interview process. Stella Smethurst cautioned that achieving agreement from the employer of any potential candidate to release staff to attend meetings may be challenging.

107(a) Minutes

Resolved -

That the Minutes of the meeting held on 20 July 2017, having been printed and circulated, were taken as read and confirmed and signed by the Chairman as a correct record.

107(b) Progress on Issues raised by the Board

It was noted, by the Chairman, that the majority of issues highlighted were agenda items for this meeting and would be discussed at the relevant point.

In addition Scrutiny training at Selby was highlighted.

Resolved -

That the report be noted.

108. Declarations of Interest

There were no declarations of interest submitted.

109. Public Questions or Statements

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

110. Draft Minutes of the Pension Fund Committee meeting held on 14 September 2017

- A query was raised regarding Minute 22 and Amanda Alderson confirmed that this is a difficult issue. She explained that NYCC is treated as a “professional client” regarding funds that are invested until 3 January 2018. After this local authorities can no longer be classed as professional clients and will be treated as a retail client. The implication of this will be that access to products for investment will be reduced. If an authority chooses to be treated as a “professional client” then access is available to a greater product range as before, rendering this a paper exercise. Regarding the cost implications of this, Amanda Alderson advised that this is mainly officer time and she stated that a response is awaited from all Fund Managers if they will automatically opt NYPF up to professional status from 3 January 2018- two have already done so. This is an interim arrangement pending accession to pooling. Amanda Alderson confirmed that there is a requirement to opt up for legacy arrangements and also to opt up with the pool. It was noted that opting up is necessary even to facilitate dialogue with Fund Managers on specific products and investments.
- It was noted that of the 12 Funds in the BCPP only two have a positive cashflow and the Member raising the issue hoped that this was not a time bomb which could impact adversely upon NYPF. It was explained that whilst the BCPP may turn negative overall, NYPF should remain positive for the foreseeable future. All parties are separately legally liable and it is only investments that are pooled. It was acknowledged that the whole of NYPF’s cashflow is supported by what is being paid in, a situation only few Funds find themselves in.

- A query was raised regarding Annual Benefit Statements and breaches which have occurred. It was noted that this issue is on the list for action, and incidents are being recorded. It was suggested that it would be helpful to ensure a consistency in the process regarding referrals. It was accepted that this may not be mandatory but it is good practice to do so. The benefit of the log is that this includes corrective action, linking to an improvement plan and audit trail. It was acknowledged that the guidance regarding treatment of breaches is vague and the causes can be very varied. The Chairman advised that the log had been discussed in detail at the Pension Fund Committee in September - with 4,000 incidents at that time, the position having improved since then. Phillippa Cockerill advised of the impending benefit statements review meeting to take place the following week and she assured Members that officers will continue to be vigilant in this regard. She advised that the breach log will be presented to a future Pension Fund Committee meeting and it will then come to Pension Board. She advised that the look and feel of this is being finalised presently. She advised that 90% of statements for active Members had now been issued.
- A query was raised regarding the new Chief Executive of BCPP, noting that they were not named in the Minutes. Amanda Alderson advised that the name could not be included at the time, as at the time of the meeting it was not public information.
- An issue was raised regarding Scheme Representatives and concern was expressed that none were sourced from Local Government, which the Member found surprising given local authorities are contributing such a lot financially. The Chairman, David Portlock, advised that he had raised this issue with the Chairman of the Pension Fund Committee County Councillor John Weighell. He stated that there was support for a Scheme member representative but there would be issues with the practicalities of finding and appointing a representative over the 12 Funds and one million or so members. It was also noted that the meetings that would be attended are held in the public domain where anyone can attend and speak. The Member raising the issue suggested that perhaps this could be overcome, even if it was spread across the 12 members and attendance was rotated. The Chairman confirmed that Pension Fund Committee Members supported this in principle but had reservations related to the mechanics of appointment. David Portlock confirmed that he is happy to revisit this with the Pension Fund Committee. Some disappointment was expressed at the finality of the resolution in (ii) on page 28.
- A concern was raised regarding Minute 24 concerning the GMP reconciliation. It was noted that scale is an issue which could lead to a financial threat to pensioners. The Chairman advised that both Pension Board and Pension Fund Committee concur on this issue and there is frustration that this has arisen. It was acknowledged that a contract has been placed with a third party to undertake this work and Pension Fund Committee are unable to determine the way forward until that information is received.

Resolved -

That the issues and points raised are noted and actions indicated are undertaken accordingly.

111. Annual Report of North Yorkshire Pension Fund

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) presenting for review the Annual Report and Accounts 2016/17 of the North Yorkshire Pension Fund (NYPF).

This was received without comment.

Resolved -

That the issues and points raised are noted.

112. Internal Audit Reports

Considered -

The report of Internal Audit providing an update on Internal Audit activity.

Ian Morton of Veritau introduced the report which seeks to keep Members apprised of activity, highlighting the four reports scheduled for 2016/17 - attached in the Appendices. Since the drafting of the report to Pension Board it was noted that the Pensions Expenditure report has now moved from 'draft' status to 'complete'. It was also noted that the Plan for 2017/18 has been agreed and includes pension income and expenditure, and also Pension Fund governance arrangements.

- A Member highlighted the key findings regarding Pension Fund income shown at page 74. Concern was expressed about the failing relating to the absence of sampling evidence, potentially undermining the validity of the results. Ian Morton confirmed that this will be addressed for the future.
- It was noted that for next year's plan Veritau will agree the best time to look at reviewing governance arrangements - given the challenges which come with pooling. It was acknowledged that both the Pension Fund Committee and Pension Board are keen to see robust arrangements in place. There was discussion of what is appropriate and the how to judge that the right provisions have been made. Also, in trying to judge performance in this regard, is the focus about the transfer of monies or how well the management of the Fund is undertaken compared to NYPF previously?
- It was acknowledged that the advantage of asset pooling should be the cheaper combined cost of auditing the 12 former Funds as one pool. It was stressed that the emphasis is very much about the internal organisation. Ian Morton commented that assurance would be sought about the appropriateness of internal operation of the pool and how it interacts with both the Pension Fund Committee and Pension Board. He advised that next year these assurances will be reviewed along with the information which is flowing back from the pool to satisfy the North Yorkshire Pension Fund. It will necessarily include a review of those governance arrangements.
- It was accepted that these are anxious times due to the paradigm shift which is underway. It was noted that the new Chief Executive will appoint an auditor and all the pool members will have to rely on that, including regarding assessments of the performance of the Fund. It was recognised that clarity is needed regarding Veritau's role going forward and who will be doing what.

- It was noted that NYPF will continue to have their own advisers looking at data received. It was acknowledged that NYPFC will retain responsibility for asset allocation and therefore will need to retain external advisers in relation to investment strategy. A Member asked if a summary would still be provided in future regarding how those assets are performing, and it was hoped that this will still be the case.
- A Member raised concerns regarding the Altair system and the problems identified regarding password requirements. Ian Morton advised that this reflects a theoretical weakness rather than an actual failing. There was discussion regarding the degree of security afforded and whether or not this should be ear marked as a development area to improve arrangements.
- An issue was raised regarding one employer and it was confirmed that this work had been completed.
- Regarding problems with the compulsory unpaid leave calculations encountered last year, Ian Morton advised that the issue had been addressed.
- A query was raised regarding over and underpayments on Altair and the rating of 'substantial assurance' awarded, when that aspect had not been audited. It was noted that it had been agreed to delay the review of this aspect as Employment Support Services which provide the information to the NYPF had been unable to accommodate the review within the timescales.

Resolved -

That the report and attached Internal Audit reports are noted.

113. External Audit Report

Considered -

The report of the Assistant Chief Executive (Legal and Democratic Services) asking the Board to consider the External Auditor's (KPMG) report on its work in relation to the audit of the Pension Fund's 2016/17 Financial Statements.

The Chairman advised that this report was agreed by the Audit Committee on 7 September 2017 and therefore it is already signed off. He noted a typographical error in paragraph 3.1 of the report - "April 2016" should read "April 2017". There was discussion of the fees for the Pension Fund – see page 28 of KPMG's report. In addition to the fees noted in the report, an amount of £17,000 had been paid to KPMG for dealing with Withholding Tax claims. A query was raised regarding the istock photographs which had been used in the Pension Fund Annual report, which could place the Authority at risk of legal action. It was agreed that this issue would be resolved with the Print Unit. The revised format of the report was noted and the condensed timescales which will apply next year. It was also noted that the impact of revised format would be reviewed shortly.

Resolved -

That the contents of KPMG's report are noted.

114. Pension Board Projects

Considered -

The report of Legal and Democratic Services.

There was discussion of the need to identify Pension Board members to take the lead on each project and members volunteered for those areas of interest to them.

Phillippa Cockerill, Head of Pensions Administration, provided a presentation explaining the work she and her team were doing to seek to deliver the best possible outcome for scheme members and to achieve this they seek to standardise, simplify and share working practices and resources - with a focus on delivering best customer outcomes and reducing costs. She advised of the key timelines and actions, the project work and management of resources. She advised Members that she would provide regular progress reports and she hoped that the degree of scheme member satisfaction would consequently increase as a result of the actions taken. The imperative is the need to keep pace with increasing demand from Scheme members which has necessitated a review of ways of working to create additional capacity.

The proposals were welcomed and it was recognised that the Pension Board can provide a good sounding board for this work and progress reports will be shared with Pension Fund Committee also. Phillippa Cockerill advised that the availability of throughput statistics will help ensure the appropriate resources are allocated.

- A Member commented that the regular provision of useful information can help reduce significantly the number of queries received.
- The present complexity of statements and their layout was noted and the fact that many members do not understand the language used which gives rise to queries and confusion. It was accepted that there may be limited room for improvement in this regard but efforts will continue to be made.
- Regarding addressing the backlog of work, the sufficiency of resourcing was queried. Phillippa Cockerill advised that the situation was improving and she assured Members that it would be resolved before the end of 2017/18. She highlighted the additional strain which had been created as a result of academy conversions. It was acknowledged that the concern could be relayed to Gary Fielding, Corporate Director - Strategic Resources and Treasurer of the NY Pension Fund, however it was also recognised that in the climate of austerity it may not be possible to secure additional resources. It was accepted that this is an operational matter and not one for the Pension Board to become deeply involved with. Phillippa Cockerill reiterated that the project she had described should create more capacity to diminish the backlog. It was acknowledged that it may be possible to make a case for short term additional resources to help implement the required changes. Members were keen to be kept informed of progress against the timetable indicated.
- There was also discussion of the GMP reconciliation exercise and a query was raised regarding data security - it was explained that a secure site is

used for data upload which complies with the General Data Protection Regulations 2018. The third party being used is well versed in these requirements as it is their core business. Phillippa Cockerill confirmed that this requirement is covered in the contract which has been organised via the LGPS framework which provides extra reassurance.

In terms of the projects identified in the report: item 2.1 - the exercise of employer in administering authority discretion is to be deferred for the present time. Items 2.2, 2.3 and 2.4 will be progressed by the Members referred to below. For each of these a one page summary of the scope of the project, the likely impact upon Pension Fund officers, and timescales, is to be available for the next meeting.

Resolved -

(a) That the lead on each project is agreed as detailed below:

- Exercise of employer in administering authority discretion – deferred.
- Management, administration and governance process and procedure - Mandy Swithenbank to take the lead.
- Development of improved customer services - County Councillor Mike Jordan and Councillor Ian Cuthbertson to take the lead.
- Scheme member and employer communications - Councillor Ian Cuthbertson and County Councillor Mike Jordan to take the lead.

115. Pooling

Considered -

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

Amanda Alderson, Senior Accountant Strategic Resources, introduced the report advising of the three workstreams being undertaken by officers and Members.

Governance workstream: it was noted that a Joint Committee comprising the Chair of each Pension Fund has been established of which County Councillor John Weighell has been appointed Chairman. The first meeting took place in June and the papers for this were published on the South Yorkshire Pension Fund website as they are providing the secretariat function. A dedicated BCPP website is being established and should be available later this month. The next meeting is scheduled to take place on 20 October 2017 to take place in County Hall. The papers for this meeting are due to be published shortly and Amanda Alderson would be able to provide that link for any public papers. Updates on progress will be submitted to the Joint Committee which is being used as a sounding board prior to the final sign off of arrangements. These meetings will be quarterly. Amanda Alderson advised that the draft staffing structure for the company has been produced and circulated to Section 151 Officers, and this will go to the next meeting for approval. She advised that the implementation budget is on track so far with a budgeted contribution of £350,000 from each partner.

People workstream: Amanda Alderson advised that County Councillor John Weighell is heavily involved in the recruitment. She advised that Chris Hitchin has been appointed Chairman, and he will work four days a week, and the CEO Rachel Elwell is due to start in December – she has previously worked for Royal London and PWC. The Chief Operating Officer has been appointed but their name remains

confidential as all 12 Fund Members have yet to ratify this. Also two Non-Executive Officers have been recruited but these details also remain confidential at this time.

- Queries were raised regarding the salary for the CEO and Members presumed that this is as advertised.

Adverts for the Chief Investment Officer and Risk Officer are presently out and selection is expected by the end of November.

Regarding TUPE implications it was noted that around 15 staff are due to come over from the three internally managed Funds.

- A Member expressed the hope that the draft structure, once published, may be used to help monitor any increase in staffing and therefore costs over time.
- Reference was made to the FCA regulations and Amanda Alderson advised of the submission to the FCA in November in readiness for completion in May. The requirement for staff to be FCA accredited was noted and Amanda Alderson advised that this will be reflected in the application.
- There was discussion of the terms and conditions for the TUPE staff and Deloitte are advising regarding their pension arrangements. Amanda Alderson confirmed that a full procurement process had been undertaken to appoint Deloitte.
- On the question of property Amanda Alderson advised that the options had been narrowed down to two options.

Operating model workstream: Amanda Alderson advised of the tendering process which was underway regarding the depository for the pool. She confirmed that the asset allocation template had been drafted and this would go to the Joint Committee for approval.

- A Member reiterated the desire to see a Scheme member appointed as a voting member of the pool.
- There was also discussion of the transition process including the question of giving notice to AON Hewitt. Amanda Alderson confirmed that there would be no need to give notice as this company will continue to provide Fund advice. The timelines for the procurement of sub-fund managers was also mentioned.
- There was discussion of the question of liquidating assets for transfer - this was not felt to be necessary at present, and also the possible impact of Brexit. It was recognised that there are still a number of unknown factors. It was acknowledged that every effort will be made to lock-in any gains whilst not acting in a way which is detrimental to or diminishes the assets.

Resolved -

That the report is noted.

116. Training

Considered -

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

It was acknowledged it is not necessary for all eight Members to complete all of the TPR modules.

Two days of training recently undertaken at York were noted.

The Chairman David Portlock highlighted information circulated recently regarding a forthcoming half day of CIPFA training in Leeds (March 2018) or Liverpool (November 2017), and it was agreed that David Portlock and Mandy Swithenbank should attend. The information gleaned will be circulated and feedback given at a future meeting.

Resolved -

The update was noted.

117. Work Programme

Considered -

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

Resolved -

That the Work Programme will be revised following receipt of the scoping reports (see Minute 114 above) to the next meeting.

118. Any Other Business

David Portlock, Chairman, advised that he will be away for three weeks, returning in early November.

The meeting concluded at 12.30 pm

JO'D