

Appendix A

Minutes of a meeting of the West Yorkshire Pension Fund Joint Advisory Group held on Thursday, 26 July 2018 in Aldermanbury House, Godwin Street, Bradford BD1 2ST

Commenced 1.30 pm
Concluded 3.35 pm

Present – Councillors

Members of the Committee

<p><u>Bradford Members</u> Councillors: Thornton Ellis</p>	<p><u>Calderdale Members</u> Councillors: Baines Lynn Metcalf</p>
<p><u>Kirklees Members</u> Councillors: Loonat Firth Richards</p>	<p><u>Leeds Members</u> Councillors: Dawson Harrand Scopes</p>
<p><u>Wakefield Members</u> Councillors: Jones Stokes</p>	<p><u>Trades Union Members</u> Councillor Greenwood (UNISON) Mr Chard (GMB) Ms L Bailey (UNISON)</p>
<p><u>Scheme Members</u> Mr Sutcliffe Ms W Robinson</p>	

Observers: S Liddle, Mazars LLP

Apologies: Councillor Shakeela Lal and Councillor J Speight

1. APPOINTMENT OF CHAIR (Standing Order 35)

Resolved –

That Councillor Thornton be appointed Chair of the Joint Advisory Group for the Municipal Year 2018/2019.

2. APPOINTMENT OF DEPUTY CHAIR (Standing Order 35)

Resolved –

That Councillor Ellis be appointed Deputy Chair for the Municipal Year 2018/2019.

3. DISCLOSURES OF INTEREST

All those present who were members or beneficiaries of the West Yorkshire Pension Fund disclosed, in the interests of transparency, an interest in all relevant business under consideration.

Action: *City Solicitor*

4. MINUTES

Resolved –

That the minutes of the meeting held on 25 January 2018 be signed as a correct record.

5. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted by the public to review decisions to restrict documents.

6. RISK MANAGEMENT

The Director, West Yorkshire Pension Fund, submitted a report, **(Document “A”)** which presented West Yorkshire Pension Fund’s latest risk management report.

Members questioned the level of risk involved following changes to the contract with HSBC Global Security in relation to the development of the Northern Trust. In response it was explained that the contract with HSBC was on a rolling basis and could be terminated with 30 days notice. HSBC were aware of changes likely to occur due to the Northern Trust and with £15 billions worth of assets would ensure the fund was well supported. WYPF were keen to maintain the contract due to it containing valuable clauses and as a contingency to support any risks.

The dependence on City of Bradford Metropolitan District Council’s processes and procedures was raised as a matter of concern. It was explained that most Local Government Pension Funds were attached to a local authority and assurances were provided that regular communication on a very high level was undertaken with Bradford MDC. In response to questions about the potential penetration of fire walls it was explained that the WYPF did have disaster plans in place and that regular penetration testing was undertaken.



Members were assured that none of the risks identified in the report were in the high or very high likelihood category and the impacts were not catastrophic or critical.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

7. SHARED SERVICE PARTNERSHIP WITH LINCOLNSHIRE PENSION FUND - UPDATE

The report of the Director, West Yorkshire Pension Fund, (**Document “B”**) provided an update on the West Yorkshire Pension Fund’s (WYPF) shared service partnership to provide a pensions administration service for Lincolnshire Pension Fund (LPF) which commenced on 1 April 2015.

Members were assured that performance and benchmarking were key areas of work for the Fund. Document “B” revealed performance against key areas of work for the period 1 April 2018 to 30 June 2018 and reported that a number of targets had been exceeded.

It was mentioned that WYPF would be providing a similar shared service for the London Borough of Hounslow from 1 August 2018. A member referred to teething problems encountered with the quality of data received at the implementation of the shared service partnership with Lincolnshire Pension Fund and questioned whether any were anticipated with London Borough of Hounslow. In response it was acknowledged that all new clients presented their own issues. New partnerships were often sought because of problems with service providers. Data issues were anticipated and plans had been put in place.

It was questioned if contingencies were in place for potential problems arising from the transfer of Multi Academy Trusts. Assurances were provided that all Pension Funds had guarantees from the Department of Education and benefits would not be affected.

A member questioned why a similar report wasn’t provided for WYPF and it was agreed that this would be provided going forward.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund



8. **EXTERNAL BUSINESS - PENSION ADMINISTRATION FOR THE FIREFIGHTERS' PENSION SCHEMES**

West Yorkshire Pension Fund (WYPF) provides a shared service partnership to deliver a pensions administration for a number of Fire Authorities.

The report of the Director, West Yorkshire Pension Fund, (**Document “C”**) provided an update on business to date.

The report explained that the Fund had been chosen to provide pension's administration to seven new fire authorities bringing the total to 14. It was believed that this was because of national recognition of the WYPF's expertise of providing administration services.

The report included performance and benchmarking revealing performance against key areas of work for the period 1 April 2017 to 31 March 2018.

The costs of the shared service partnerships were questioned and it was explained that charges were made as a cost per member. The charges were not for profit and all income received was invested in staff or technology resulting in lower costs per member for all schemes administered.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

9. **WEST YORKSHIRE PENSION FUND ADMINISTRATION OUTTURN 31 MARCH 2018**

The report of the Director, West Yorkshire Pension Fund, (**Document “D”**) summarised the total costs of administering pensions and investments in 2017/2018.

The report included analyses of WYPF total cost of operations for 2017/18 showing a variance between 2017/18 revised budget and costs. A Member queried the variance between the outturn and estimates and it was also questioned if the overspend on 'other running costs' was expected to continue.

In response it was explained that WYPF set an annual budget of £200k in a normal valuation year and that each third year that provision would be increased to £300k, however, a move had now been made to a more regular process of looking at data for valuation on a monthly basis. This was to ensure that any action required could be taken in a timely manner and prevent costly commissioning of work further down the line. The variance was, therefore, due to a compilation of the fund working with the actuary to look at the final costs and measures undertaken to reduce those costs.



Changes to the way that investment transaction charges were recorded had also affected the variance as investment costs such as stamp duty, previously recorded as capital expenses were now categorised as revenue.

A substantial reduction in oversight and governance in the costs per member 2017/18 were queried. Members were advised that guidance had been received indicating that some costs were wrongly apportioned and should not be included in the oversight and governance category. The refinement of those costs had led to the reduction in that category.

Resolved –

- 1. That the West Yorkshire Pension Fund total cost for 2017/18 reported in Document D be noted.**
- 2. That the achievement of the Director, West Yorkshire Pension Fund, and officers, in achieving the favourable cost per member be acknowledged and the appreciation of the WYPF JAG be relayed.**

ACTION: Director, West Yorkshire Pension Fund

10. UNAUDITED REPORT AND ACCOUNTS 2017/2018

The report of the Director, West Yorkshire Pension Fund, (**Document “E”**) presented the WYPF unaudited Report and Accounts for the financial year 2017/18.

The unaudited Fund’s financial position for the year ended 31 March 2018. The accounts had been Report and Accounts provided a summary of West Yorkshire Pension prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Pensions Statement of Recommended Practice 2007.
- International Financial Reporting Standards (IFRS), as amended for the UK public sector.

It was reported that the value of the Fund as at 31 March 2018 was £13,566.6m, a net decrease of £65.7m, 0.5%, compared to the asset value at 31 March 2017 of £13,632.3m. The reduction in value was mainly due to a large scale bulk transfer in October 2017 of assets estimated at £450m to Greater Manchester Pension Fund (GMPF) for First Group West Yorkshire. There was a corresponding transfer of liabilities (which did not appear on the balance sheet) estimated at £482m, the net impact was an improved funding position for WYPF.



The actuarial valuation at 31 March 2016 had determined that the funding level was 94% and was one of the highest funding levels within LGPS in the last valuation. Following the large transfer of assets and liabilities to GMPF, an updated funding report at 31 March 2018 was requested from Aon plc, which indicated that the fund was now 107% funded. The improvement was principally due to the strong financial markets since the 2016 valuation. As this was merely an updated funding level it would not provide any cash flow benefit to employers. If the markets remained steady to 31 March 2019 it should result in employers' contributions continuing at current levels, however investment markets may rise or fall.

Members were advised that the accounts were subject to audit but would be presented to the Governance and Audit Committee on Monday 30 July 2018.

Resolved –

- 1. That the unaudited WYPF Report and Accounts for the financial year ended 31 March 2018 be noted.**
- 2. That the planned transfer of custody to Northern Trust, as outlined in Document “E” be noted.**
- 3. That the planned extension and review of banking services for West Yorkshire Pension Fund, as outlined in Document “E” be noted.**

ACTION: Director, West Yorkshire Pension Fund

11. AUDIT COMPLETION REPORT YEAR ENDING 31 MARCH 2018

The Audit Completion Report (ACR), (**Document “F”**) set out the findings from the audit of the West Yorkshire Pension Fund for the year ended 31 March 2018, and would form the basis for discussions at the Governance & Audit Committee meeting on 30 July 2018.

The Audit Manager for WYPF from Mazars LLP, addressed the meeting and explained that the audit had been completed in accordance with International Standards of Auditing (UK and Ireland) issued by the Audit Practices Board. The work was substantially complete but some areas of work were still continuing as set out in the Executive Summary on page 4 of the report. The statutory deadline for completing the audit was 31 July.

The report revealed that a trivial threshold, the level under which individual errors were not communicated to the Governance and Audit Committee, was set at £4m. A Member questioned if the Governance and Audit Committee would monitor if cumulatively that amount was exceeded. Assurances were provided that the phrase error was a term for discrepancy and that the Director, West Yorkshire Pension Fund, would be aware, and take action, on discrepancies below that amount. There was no trivial threshold permitted for fraud.



Resolved –

That the Audit Completion Report, Appended to Document “F”, be noted.

ACTION: Director, West Yorkshire Pension Fund

12. NORTHERN POOL

The report of the Director, West Yorkshire Pension Fund, (**Document “G”**) set out the progress in establishing the Northern Pool covering:-

- Drafting the Northern Pool Operating Agreement, including the Terms of Reference for the Joint Committee.
- Procuring a joint custodian for all assets of the Pool.
- Developing the GLIL Infrastructure Vehicle (including FCA regulation to facilitate it becoming the national LGPS vehicle for infrastructure investment)
- Developing a joint private equity vehicle.

Document “G” sought the approval of the Northern Pool Operating Agreement which was appended to the report, subject to review by the City Solicitor.

A Member questioned the purpose of an infrastructure vehicle and it was explained that the rationale was to invest in UK infrastructure. Investments which had already commenced included off shore wind; East Anglia rail stock; South West Railways and Anglian Water.

The report revealed that in March 2018, after a complex competitive tender process, the Northern Pool Shadow Joint Committee had approved the appointment of a common custodian bank, Northern Trust. It was confirmed that the bank had provided services for Merseyside Pension Fund for a number of years. Northern Trust was one of six major international providers of custody services. Specialist advisors had been used to advise on the legal agreements required and the tender process had been based on the condition that a legal agreement be made. The length of the legal agreement would depend on performance compliance and would be re-tendered in due course.

Resolved –

That progress on pooling arrangements to date be noted, and the inter authority agreement, be approved, subject to review by the City Solicitor, known as the Northern Pool Operating Agreement (Appendix A to Document “G”) for submission to the Governance and Audit Committee and, in due course, City of Bradford Metropolitan District Council, and that the Director West Yorkshire Pension Fund, be authorised to amend it as expedient or necessary and put in place any ancillary documentation.

ACTION: Director, West Yorkshire Pension Fund



13. LOCAL GOVERNMENT PENSION SCHEME 2014

The Director, West Yorkshire Pension Fund presented **Document “H”** which updated Members on changes to the Local Government Pension Scheme (LGPS) 2014 made by the Local Government Pension Scheme (Amendment) Regulations 2018.

Resolved –

That the amendments to the Local Government Pension Scheme, contained in Document “H” be noted.

ACTION: Director, West Yorkshire Pension Fund

14. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDERS

West Yorkshire Pension Fund has three Additional Voluntary Contribution Providers namely:

- Equitable Life Assurance Society
- Scottish Widows
- Prudential

Annually the West Yorkshire Pension Fund asks Aon plc’s Additional Voluntary Contribution Team to review the performance of the Additional Voluntary Contribution Providers in terms of investment performance, financial strength, investment capabilities, charging structure and administration. The report of the Director, West Yorkshire Pension Fund (**Document “I”**) outlined the findings of that review.

A proposal that Club Active, WYPF’s communication with Members, could be used to advise members to consider Lifestyle Funds, which were considered less risky as members approached retirement, was suggested. In response it was explained that WYPF as administrators of the Fund were unable to provide financial advice. That view was challenged and a belief that the fund was making decisions for its members was expressed, however, the Director, WYPF explained that members were provided with options and that they did make active decisions.

The report revealed that one of the Fund’s three AVC providers, Equitable Life, had entered into an agreement to transfer its business to Reliance Life. Members questioned the effect of that transfer and were assured that advice would be sought from the Actuary.



Resolved –

That the outcome of the annual review of West Yorkshire Pension Fund’s Additional Voluntary Contribution Providers, contained in Document “I” be noted.

ACTION: Director, West Yorkshire Pension Fund

15. ACTUARIAL VALUATION 2019

The report of the Director, West Yorkshire Pension Fund (WYPF), (**Document “J”**) advised Members that the next triennial Actuarial valuation of the Fund was due at 31 March 2019 and that it would determine employer contribution rates from April 2020 onwards.

It was explained that an initial meeting with the Actuary would be arranged in autumn 2018 when issues relating to the valuation and investment markets would be explored in some depth.

A Member referred to the current difficult market conditions and his belief that, in such a market, it would not be prudent to consider any reduction in contributions until the fund was 140% funded. It was confirmed, in response, that discussions were held with the finance directors of all five local authorities and the fire service and in those discussions the message was communicated that although the fund was in surplus there was no intention to reduce contributions.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

16. FUNDING STRATEGY STATEMENT

The report of the Director, West Yorkshire Pension Fund, presented a report, (**Document “K”**) which advised Members that the current Funding Strategy Statement and Exit Policy required updating.

A summary of the changes to be implemented were detailed in Document “K” and it was explained that a consultation exercise with stakeholders had been undertaken on the proposed changes to the current Funding Strategy Statement and Exit Policy.

Resolved –

That changes to the Funding Strategy Statement, contained in Document “K” be noted.

ACTION: Strategic Director, West Yorkshire Pension Fund



17. REGISTER OF BREACHES OF LAW

The Director, West Yorkshire Pension Fund, presented a report (**Document “L”**) which informed Members that, in accordance with the Public Service Pensions Act 2013 all Public Service Pension Schemes now came under the remit of the Pensions Regulator.

Section 70 of the Pensions Act 2004 (the Act) imposed a requirement to report a matter to the Pensions Regulator as soon as it was reasonably practicable where that person had reason to believe that:

- (a) A legal duty relating to the administration of the scheme has not been or is not being complied with, and
- (b) The failure to comply is likely to be of material significance to the Pensions Regulator in the exercise of any of its functions.

A register of any breaches of the Pensions Code of Practice was maintained in accordance with the WYPF Breaches Procedure. The Register of Breaches 2017/18 and 2018/19 were appended to Document “L”.

Resolved –

That Document “L” and the entries on the Breaches Register appended to Document “L” be noted.

ACTION: Director, West Yorkshire Pension Fund

18. TRAINING, CONFERENCES AND SEMINARS

Members were reminded that training to understand their responsibilities and the issues they would be dealing with was a very high priority.

The report of the Director, West Yorkshire Pension Fund, (**Document “M”**) informed Members of training courses, conferences and seminars which may be of assistance. Full details about each event were available at the meeting.

The requirement for Members to develop and maintain their skills to fulfil their roles and to demonstrate that they had the appropriate level of knowledge to take appropriate decisions and challenge officers was stressed.

Members were urged to give consideration to attending the training courses, conferences and seminars set out in Document “M”.

No resolution was passed on this item.



19. ANNUAL MEETINGS

The Director, West Yorkshire Pension Fund, presented a report (**Document “N”**) which advised Members that West Yorkshire Pension Fund would be holding two Annual Meetings in 2018. One meeting would be for Employers and the other would be for Scheme Members.

A Member suggested that retired Members may not wish to travel in rush hour traffic to the meeting which was proposed to be held in the afternoon of 31 October 2018. He questioned if the timings had affected attendance at previous meetings.

The Director, West Yorkshire Pension Fund, explained that the timings of the meetings had been amended to facilitate attendance by active members and the situation would be monitored. The member who had raised the issue acknowledged that active members would be interested in the meetings as their pensions were not yet granted. It was believed, however, that it was just as important that retired members got together and receive assurances about the fund’s performance. It was requested that changes to meeting arrangements be kept under review.

Resolved –

That the details of the West Yorkshire Pension Fund Annual Meetings, as set out in Document “N”, be noted.

ACTION: Director, West Yorkshire Pension Fund

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the WYPF Joint Advisory Group.

THESE MINUTES HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER

