

Minutes of a meeting of the West Yorkshire Pension Fund Joint Advisory Group held on Thursday, 25 July 2019 in the Ernest Saville Room - City Hall, Bradford

Commenced 1.30 pm
Concluded 3.20 pm

Members of the Committee

<p><u>Bradford Members</u> Councillors: Thornton Winnard</p>	<p><u>Calderdale Members</u> Councillors: Baines Lynn Metcalfe</p>
<p><u>Kirklees Members</u> Councillors: Ahmed Murgatroyd</p>	<p><u>Leeds Members</u> Councillors: Scopes</p>
<p><u>Wakefield Members</u> Councillors: Graham Shaw Speight</p>	<p><u>Trades Union Members</u> A Goring (UNISON)</p>

Apologies: Councillor Peter Harrand, Councillor Gulfam Asif, Liz Bailey, Mr Tristan Chard, Wendy Robinson and Councillor Taj Salam

1. APPOINTMENT OF CHAIR (Standing Order 35)

Resolved –

That Councillor Thornton be appointed Chair of the West Yorkshire Pension Fund Joint Advisory Group for the municipal year 2019/2020.

Action: City Solicitor

2. APPOINTMENT OF DEPUTY CHAIR (Standing Order 35)

Resolved –

That Councillor Winnard be appointed Deputy Chair of the West Yorkshire Pension Fund Joint Advisory Group for the municipal year 2019/2020.

Action: City Solicitor

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 31 January 2019 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. **WEST YORKSHIRE PENSION FUND'S RISK MANAGEMENT REPORT**

The Director, West Yorkshire Pension Fund, presented a report, (**Document "A"**), which presented West Yorkshire Pension Fund's latest risk management report.

The background to Document "A" revealed that 45 risks were associated with the operation of the WYPF under the headings of Economic, Political, Technological, Legislative/Regulatory, Managerial/Professional, Finance, Physical, Competitive, Customer/Citizen, Social and Partnership/Contractual.

The WYPF Departmental Risk Management and Opportunities report, appended to Document "A", outlined the categorisation of those risks; the 23 most important risks requiring scrutiny; the future review and revision of risks and the full list of identified active risks. Included in the report were details of the required management action/control needed to address each of the 23 most important risks identified. Members were assured that risk, in overall terms, were regularly monitored to ensure the report was up to date and relevant in identifying risks in respect of both the current and future operational practices of the WYPF.

Members recognised the impact that the level of dedication and expertise of staff had on the excellent performance of the fund and acknowledged the importance of staff satisfaction.

Assurances were provided that staff turnover was under 5% last year with a high percentage of officers having over 20 years service with the fund.

It was explained that a summary of staffing issues could be included in future reports and it was suggested that the Pensions Administration report would be the most appropriate method to communicate that information.

A Member returning to the Joint Advisory Group welcomed seeing familiar officers and faces but requested that succession planning also be included in future reports on the workforce.

Resolved –

1. That the report be noted.
2. That the Director, West Yorkshire Pension Fund, be requested to include details of staff recruitment, retention, absence figures and succession planning in future Pension Administration reports.

ACTION: *Director, West Yorkshire Pension Fund*

7. PENSIONS ADMINISTRATION

The report of the Director, West Yorkshire Pension Fund, (**Document “B”**) provided an update on West Yorkshire Pension Fund’s pensions administration activities over the last six months.

The report revealed the variety of work undertaken. Performance against key areas of work for the period 1 January to 30 June 2019 was provided. It was explained that there were only two key performance indicators (KPIs) which had not been met or exceeded. The rationale for those KPIs not being met was that monthly postings could be delayed because of the level of information which had to be queried and that delays did occur as the death of deferred members were not communicated to the fund.

A graph of current work in progress showed the volume of work in progress and a breakdown of the different funds and schemes. The results of customer feedback and employer feedback were appended to the report.

Amendments to the Annual Benefit Statements were explained and included additional options available for members. The changes had been made to provide as much information as possible to members before they retired. It was confirmed that member enquiries had subsequently reduced.

The procedure for issuing Deferred Benefit Statements was discussed and it was explained that it was expected that a surge of requests for early payment would be received as deferred members could now have benefits paid from age 55, with reductions.

The recently attained accreditation to ISO27001 Information Security Management System was reported together with details of two awards, Best Administration Award, presented by Pensions Age magazine and Pension Administration Award received at the European Pension Awards.

Resolved –

1. That the report be noted.

2. That officers be congratulated for their excellent performance and the attainment of awards from the Pensions Age Magazine and the European Pension Awards.

ACTION: *Director, West Yorkshire Pension Fund*

8. **AUDIT COMPLETION REPORT**

The Director, West Yorkshire Pension Fund (WYPF), submitted the Audit Completion Report (ACR) which set out the findings from the audit of the West Yorkshire Pension Fund for the year ended 31 March 2019 (**Document “E”**).

The ACR set out the findings from the audit of the WYPF for the year ended 31 March 2019 and would form the basis for discussion at the Governance & Audit Committee on 31 July 2019. Document “E” confirmed that the audit had been completed in accordance with the International Standards of Auditing (UK and Ireland) issued by the Audit Practices Board.

A representative from the external auditors, Mazars, summarised the report and concluded that it had been a good audit and closing procedures were being completed. It was reported that two risks had been identified:-

- Management Override of Controls
- Valuation of unquoted investments for which a market price was not readily available.

It was explained that the risks of managers overriding controls would be found on all audits. Work on those two risk factors had been conducted; assurances had been gained and no material issues had been highlighted.

An information technology (IT) issue which had arisen had now been addressed through internal controls.

The summary of misstatements revealed that there were two misstatements which management had assessed not to be material and not adjusted for in the accounts. The rationales for these were reported and it was confirmed there was nothing significant to be disclosed.

Resolved –

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

ACTION: *Director, West Yorkshire Pension Fund*

9. **WEST YORKSHIRE PENSION FUND (WYPF) ADMINISTRATION OUTTURN REPORT 31 MARCH 2019**

The report of the Director, West Yorkshire Pension Fund, (**Document “C”**) summarised the total costs of administering pensions and investments in 2018/2019.

The report revealed that the cost of Local Government Pension Scheme (LGPS) pension administration and investment management was disclosed in the accounts over three main headings:-

- Pensions Administration – the cost of managing members and pensioners.
- Investment Management – costs directly related to managing each investment asset and internal investment management costs.
- Oversight and Governance- cost of statutory compliance, legal, auditors, actuary, investment advisers, investment accounting systems, pension committees (Local Board, Investment Panel and Joint Advisory Group).

The total WYPF cost for 2018/19 was £10.0m as opposed to £10.4m in 2017/18.

The report included total management costs for 2018/19 and it was reported that an underspend of £1.6m was mainly due to the delayed conclusion of WYPF restructure and staffing vacancies. Other issues reported included an overspend on accommodation due to mechanical repairs to the cooling system at Aldermanbury House and an overspend on actuarial services due to increased covenant work and general technical work to improve actuarial services for WYPF and fund employers.

A Member questioned the outturn against the revised budget for actuarial costs and it was explained that there was ordinarily a budget of £300k for those costs. Earlier in the year it was known that work was not required and the budget was reduced. Later on in the year regulations had required additional work to be undertaken on the information provided to employers. Rather than wait until the year end, and to ensure that stringent deadlines could be met, additional work had been commissioned. The ability to conduct that work internally was queried and it was explained that the verification and independence required meant that this could not be carried out “in house”. It was confirmed that had the work been delayed until the end of the year the cost would have been greater.

Resolved –

- 1. That the report be noted.**
- 2. That officers be congratulated for their excellent value for money performance and the success of the shared service partnerships.**

ACTION: Director, West Yorkshire Pension Fund

10. WEST YORKSHIRE PENSION FUND UNAUDITED REPORT AND ACCOUNTS FOR 31 MARCH 2019

The report of the Director, West Yorkshire Pension Fund, (**Document “D”**) presents the WYPF unaudited Report and Accounts for the year ending 31 March 2019.

The unaudited Report and Accounts provided a summary of West Yorkshire Pension Fund’s financial position. The accounts had been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Pensions Statement of Recommended Practice 2007.
- International Financial Reporting Standards (FRS) as amended for the UK public sector.

It was explained that the report still required some slight formatting but that the technical work had been completed.

The report revealed that during the 2018/19 financial year a large scale bulk transfer of asset for the First Bus West Yorkshire of £492.1m against an estimate of £450m in the 2017/18 had been undertaken. The increase was due to favourable investment performance.

Members were advised that the actuarial valuation at 31 March 2016 had determined that the funding level was 94% one of the highest funds with in the LGPS. The latest update provided by Aon gave a funding level of 108%. The improvement was due to 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. As 2019 was a valuation year work is on going with Aon to provide the latest funding result for WYPF.

The report would be considered by the Governance and Audit Committee at the meeting on 31 July 2019 and the final version would be considered at the next Joint Advisory Group meeting in January 2020.

Resolved –

That the unaudited report and accounts for 2018/19 noted.

ACTION: Director, West Yorkshire Pension Fund

11. NORTHERN (LGPS)

The report of the Director, West Yorkshire Pension Fund, (**Document “F”**), advised members that, in accordance with the guidance from Government, West Yorkshire Pension Fund (WYPF) together with Greater Manchester and Merseyside were working towards the creation of an investment Pool, Northern LGPS (NLGPS).

The report set out the progress in establishing the Northern LGPS (formerly the Northern Pool), covering:-

- Drafting the Northern LGPS Operating Agreement, including the Terms of Reference for the Joint Committee
- Procuring a joint custodian for all the assets of NLGPS
- 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.

Members were advised that between the January and March meetings the decision had been taken to change the name to Northern LGPS which identified the pool more clearly with the LGPS and avoided confusion which may have arisen from use of pool in the name.

It was also explained that, at the Shadow Joint Committee meeting on 28 March, Councillor Doughty (Merseyside Pension Fund) had resigned as Chair as he was not standing for office in the forthcoming election. Councillor Ged Cooney (Greater Manchester Pension Fund) had subsequently been elected Chair.

The latest report on performance and cost was provided and demonstrated that NLGPS was low cost compared to its peers.

The four criteria which asset pools were required to achieve were reported. Those were achieving benefits of scale; delivering strong governance and decision making; achieving reduced costs and providing excellent value for money and an improved capacity to invest in infrastructure. It was confirmed that the Northern LGPS had a clear plan to deliver on those criteria.

Document "F" reported that the Ministry of Housing, Communities and Local Government (MHCLG) had begun an informal consultation on statutory guidance on pooling. The guidance differed considerably from the current guidance and if implemented removed the criteria set in 2015 and in particular the requirement to deliver improved value for money and lower costs. The NLGPS had submitted a response to the consultation making it clear that while it fully supported the criteria set in 2015 many aspects of the revised guidance were at odds with elected Members duties to local council tax payers and would not achieve the policy objectives of asset pooling. The key concerns raised in the report were provided.

As the issues raised were so wide and far reaching the opinion of Jason Coppel QC had been sought. The response to the MHCLG; the covering letter to QC Opinion and QC Opinion were appended to the report.

In response to questions it was explained that there could be a situation where costs incurred to fix another fund's portfolio would be charged to the NLGPS. All funds in a pool could be made to share the costs of others.

Members raised concerns that their fiduciary duty to members of the WYPF could be compromised if they were forced to subsidise other funds.

Resolved –

That the progress to date, and the response to the Ministry of Housing, Communities and Local Government on the limited informal consultation in respect of revised statutory guidance on investment pooling , be noted.

ACTION: Director, West Yorkshire Pension Fund

12. LOCAL GOVERNMENT PENSION SCHEME REGULATIONS UPDATE

The report of the Director, West Yorkshire Pension Fund (**Document “G”**) provided an update on changes to the Local Government Pension Scheme (LGPS) 2014 and provided information on associated matters.

The response to the consultation on Fair Deal – Strengthening pension protection was appended to Document “G” and it was explained that there had been no subsequent changes to regulations.

In response to consultation on Revised Late Retirement Factors members were advised that the changes went ahead despite objections. Revised guidance had been issued by MHCLG on 1 July 2019 and would come into force in September 2019. The WYPF response to that consultation was appended to Document “G”.

A response to consultation on the valuation cycle and the management of employer risk was discussed. Members were advised that a response was being prepared and would be reported at the next meeting.

McCloud and valuation guidance was discussed and it was explained that on 21 December 2018 the Court of Appeal held that transitional protections that protected older judges and fire fighters from the public sector pension scheme changes in 2015 were unlawfully discriminatory. The case was known as the ‘McCloud case’. The Government intended to appeal that judgement as unlawful but had not been given leave to appeal. Members questioned the impact that the McCloud case would have and were advised that it was not known, at the current time, what effect the judgement would have on the LGPS. Guidance from the National Scheme Advisory Board was expected.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

13. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDERS

Members were advised that West Yorkshire Pension Fund had three Additional Voluntary Contribution Providers namely:

- Equitable Life Assurance Society
- Scottish Widows
- Prudential

Annually the West Yorkshire Pension Fund asked Aon’s AVC 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 “H”**) outlined the findings of that review.

In addition the actuary had been asked to provide advice on designating a default arrangement and had advised that the Prudential passive lifestyle option would be the most appropriate default AVC.

Resolved –

- 1. That the removal of the Invesco High Income Fund and Standard Life Investments Global Absolute Return Strategies from the Scottish Widows approved funds be approved.**
- 2. That the Prudential passive lifestyle option be approved as the default AVC arrangement.**

ACTION: *Director, West Yorkshire Pension Fund*

14. ACTUARIAL VALUATION

The report of the Director, West Yorkshire Pension Fund (WYPF), (**Document “I”**) advised Members that the next triennial Actuarial valuation of the West Yorkshire Pension Fund would be prepared based on the situation at 31 March 2019 and would determine the level of employers’ contributions from April 2020 onwards.

Progress on the valuation was described in Document “I”. Members were advised that everything was going as planned and a further report would be presented to the next meeting.

A Member questioned the mortality figures used in the valuation and it was explained that scheme data, as opposed to national data, was utilised. A Member reported his personal experience of the calculations under discussion and explained that the fund data would be categorised by postcodes to take account for the socio economic groups of fund members.

Resolved –

That the report be noted.

ACTION: *Director, West Yorkshire Pension Fund*

15. FUNDING STRATEGY STATEMENT (FSS)

The report of the Director, West Yorkshire Pension Fund, presented a report, (**Document “J”**) which advised Members that the current Funding Strategy Statement required updating for two reasons.

The first effected how the funding target (liabilities) would be calculated for employers subject to what was referred to as the scheduled and subsumption body funding target. The funding target applied to all long-term employers such as the councils; police and fire; academies and any admission bodies whose liabilities would fall back to one of those bodies should the admission body cease to participate in the Fund.

The second effected how the liabilities would be calculated for employers exiting the West Yorkshire Pension Fund.

A Member queried the proposed changes to 5.5.1 regarding solvency targets in the Draft Funding Strategy Statement appended to Document “J”. In response it was explained that clarification on that point would be obtained from the Fund’s Actuary and further details would be provided to members. Members were advised that a further consultation on the Funding Strategy would be undertaken later in the year once the Actuary had carried out the initial results of the actuarial valuation as at 31 March 2019 and the Joint Advisory Group had agreed its approach to setting employer contributions. If, at that point, members required a change to 5.5.1 amendments could be made.

Resolved –

- 1. That the proposed increase of the probability of funding success to 75%; the proposed 1% increase to be added to liabilities on exit to take into account the potential increase in liabilities for both McCloud and GMP equalisation and the resulting changes to the Funding Strategy Statement be approved.**
- 2. That the postponement of the employer consultation exercise, agreed in January 2019 in relation to updates to LGPS Regulation 64 pending the outcome of the national consultation and potential changes to the regulations, be noted.**

ACTION: Director, West Yorkshire Pension Fund

16. REGISTER OF BREACHES OF LAW

The Director, West Yorkshire Pension Fund, presented a report (**Document “K”**) 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 had not been or was not being complied with, and
- (b) The failure to comply was 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 2018/19 and 2019/20 were appended to Document “K”. Those documents revealed that that since April 2019 there had been only one late payment. In September 2018 one employer had been reported to the Pensions Regulator for late payments. That employer had now ceased all contracts where employees were entitled to be in the fund and outstanding payments had been received.

Resolved –

That the entries and actions taken on the Register of Breaches be noted.

ACTION: Director, West Yorkshire Pension Fund

17. TRAINING, CONFERENCE 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 “L”**) informed Members of training courses, conferences and seminars which may be of assistance. Full details about each event were available at the meeting.

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

Attention was particularly drawn to the LGPS Fundamentals Training taking place in Leeds over three separate days in October, November and December 2019.

No resolution was passed on this item.

18. ANNUAL MEETINGS

The Director, West Yorkshire Pension Fund, (WYPF) presented a report (**Document “M”**) which advised Members that West Yorkshire Pension Fund would be holding two Annual Meetings in 2019. One meeting would be for Employers and the other would be for Scheme Members.

The Director, WYPF, looked forward to welcoming Members to those meetings.

Resolved –

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

ACTION: Director, West Yorkshire Pension Fund

19. PENSIONS ADMINISTRATION STRATEGY 2019/20

The Director, West Yorkshire Pension Fund, presented a report, (**Document “N”**) which advised Members that, to comply with the Local Government Pension Fund Scheme (LGPS) Regulations 2013, West Yorkshire Pension Fund (WYPF) prepared a written statement of the authority’s policies in relation to such matters as it considered appropriate in relation to procedures for liaison and communication with scheme employers and the levels of performance which the employers and WYPF were expected to achieve.

It was explained that the Pensions Administration Strategy was brought before JAG each year to review and approve, particularly if there were any new regulations and revisions to working practices.

Members were advised that the Pensions Administration Strategy had been updated to reflect the current Fund performance levels and remove the charge made to members requesting more than one estimate of their retirement benefits in any one year.

It was believed that improvements to the member portal and additional information contained in Member Benefit Statements would reduce the request for pension estimates currently being received.

Resolved –

That the Pension Administration Strategy, contained in Document “N”, be approved.

ACTION: Director, West Yorkshire Pension Fund

Chair

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

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