

Minutes of a meeting of the West Yorkshire Pension Fund Joint Advisory Group held remotely on Thursday, 30 July 2020

Commenced 1.00 pm
Concluded 3.35 pm

Present – Members

<p><u>Bradford Members</u> Councillors: Thornton Winnard</p>	<p><u>Calderdale Members</u> Councillors: Baines Lynn</p>
<p><u>Kirklees Members</u> Councillors: Murgatroyd</p>	<p><u>Leeds Members</u> Councillors: Dawson Harrand Scopes</p>
<p><u>Wakefield Members</u> Councillors: Graham Speight</p>	<p><u>Trades Union Members</u> Ms L Bailey (UNISON)</p>
<p><u>Scheme Members</u> Mark Morris</p>	

Apologies: Councillors Asif, Ahmed, Metcalfe, Salam & Shaw; A Goring & T Chard

Councillor Thornton in the Chair

1. **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

2. **MINUTES**

Resolved –

That the minutes of the meeting held on 30 January 2020 be signed as a correct record.

3. INSPECTION OF REPORTS AND BACKGROUND PAPERS

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

4. WEST YORKSHIRE PENSION FUND RISK MANAGEMENT REPORT

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

The report set out 44 risks associated with the operation of the Fund under headings including Economic, Political, Technological, Legislative/Regulatory, Managerial/Professional, Finance, Physical, Competitive, Customer/Citizen, Social and Partnership/Contractual. Plans to manage and mitigate 21 of those which required additional scrutiny and management were also included.

Members were advised that since the production of the report an additional risk had been added to the register with regard to the McCloud judgement for which the fund had recently received draft legislation. Members questioned the absence of environmental risks and the Director, WYPF, explained that the register referred to risks to Pensions Administration and not investments. Assurances were provided that managing risk was a key consideration in the management of the investment portfolio and it was explained that had that information been included in the Pensions Administration Risk Register it would have resulted in a very lengthy document.

Some Members felt that it was part of their fiduciary duty to be aware of all risks and believed that concrete management plans to manage and mitigate environmental threats should be included in the risk register. In response they were advised of plans to appoint an Environmental, Social and Governance (ESG) Manager whose role would include analysis of risks and the production of co-ordinated risk factors.

Following a number of questions, it was clarified that, at the current time, there wasn’t a separate investment risk register but it was reiterated that the management of risk was an integral part of all investment decisions and considered as part of the Strategic Asset Allocation.

Members were reminded that the investment decision making was devolved to the Investment Advisory Panel from the Governance and Audit Committee and that decisions about Pension Administration were devolved to the Joint Advisory Group. Members acknowledged that structure and that, as there was some joint membership between the IAP and JAG bodies, it would be inappropriate for one body to scrutinise the other.

The reluctance to note the Risk Register, by some Members until it included environmental factors, was acknowledged and it was agreed that the issues they had raised would be considered.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

5. 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 initial part of the report provided details on performance and benchmarking and revealed that the majority of Key Performance Indicators had been met or exceeded. The rationale for three areas which had underperformed was explained and was due to increased work being required to prevent fraud and because of delays in receiving contact information from members.

Current work in progress was presented and was categorised in work groups. Membership figures were reported and revealed that the scheme had a total of 428,000 members and 466 participating employers.

New business received by the Fund was included in the report and revealed that WYPF had been awarded the contract to provide pensions administration for the London Borough of Barnet Pension Scheme. The Fund had also been successful in its bid for administration of the Leicestershire, Nottinghamshire and Derbyshire Fire Authorities.

Awards received by the Fund were discussed and included the Best Administration Award by Pensions Age magazine and the Pensions Administration Award at the European Pension Awards on 20 June 2020.

It was explained that as part of the commitment to improving services WYPF carried out random surveys of customers who had been in contact with the Fund together and online surveys which any member could complete at any time had been compiled. An analysis of the responses received for the quarter January to March 2020 were appended to the report.

The Chair noted the performance and benchmarking during the three-month lockdown period and staff were highly commended for their performance during the disaster recovery period. Congratulations were also provided for the awards which had been received and his sentiments were echoed by Members.

The report included an update on amendments to work practices during the current Coronavirus Pandemic and amendments to work practices to ensure staff were able to work remotely whilst maintaining business continuity were discussed. It was questioned what consideration had been given to employees returning to office based work practices and the potential impact on accommodation costs. The Director, WYPF, explained that, as the virus had not gone away, there would be no hurry for staff to return to office based work and the current situation would be maintained until it was safe for staff to return. It was

acknowledged that, in the coming months, flexibility may be required for those staff who may find it difficult to return to the office.

The results of a recent staff survey had revealed that 70% of staff would like some form of working from home to continue. It was confirmed that performance had not been impacted by remote working arrangements.

In response to queries about the impact on accommodation costs it was reported that the need for additional accommodation to cater for the increased business had been considered but that the pressure had now subsided.

Members had previously heard that operational problems had occurred with the quality and timeliness of information from new business and it questioned if issues were anticipated with the four new contracts which were to start in November and December 2020. In response it was reported that no difficulties had arisen to date but it was felt that they could occur as some business had transferred due to poor quality of service previously received and that one scheme had been monitored by The Pension Regulator and had transferred to the fund due to the poor service they had received. The Fund's IT team were working hard and had the resources allocated to the project and all so far was going to plan.

The numbers of days' absence due to sickness was reported and compared to Bradford Council average. Members commended the statistics but questioned if any succession plans were in place for the six posts which were reported as vacant due to retirement. The number of external and internal appointments were also questioned. The Director, WYPF, reported that as part of the Fund's development and training plans all staff were encouraged to develop and all training costs were funded. Statistics were provided which revealed that staff turnover was 4% and 40% of personnel had been with WYPF for over 11 years.

As the average age of employees was 47, which Members felt that produced a 'mature' team compared to some organisations. Assurances were requested to ensure that careers pathways were in place to provide opportunities for junior staff to progress without affecting the quality of performance and it was hoped that the staff survey would provide the Fund with information to develop succession plans.

In response to questions about additional staff to undertake new business it was explained some staff may transfer with those businesses but that was felt unlikely due to distance. The Fund was currently undergoing a restructure which would strengthen governance and new business development and that would increase opportunities for staff development. Assurances were provided that staffing structures are reviewed regularly and strengthened when needed.

Following questions about the IT structure it was confirmed that the Fund used the IT infrastructure of Bradford Council for email; intranet and internet but other than that the fund was self-dependant. An internal UPM team, UPM was the application used for pensions administration, was in place and was very much ahead of the market. A programme had also been developed for the Annual Benefit Statements which allowed for the automatic issue of statements once the last month 12 returns were received and processed. There were many routines

which had been developed some of which the software providers themselves had been unable to deliver for their clients.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

**6. WEST YORKSHIRE PENSION FUND (WYPF) ADMINISTRATION OUTTURN
31 MARCH 2020**

The report of the Director, West Yorkshire Pension Fund, (**Document “C”**) summarised the total costs of administering pensions and investments for 2019/2020.

Members were advised that the costs incurred for the provision of remote devices to enable staff to work remotely were not reflected in the report. As people were continuing to work from home it had been found that some equipment had not been sufficient, some lap tops were too small and additional laptops and larger display screens were needed. Costs were still being incurred but no surprises were expected and good quality services would still be provided for a good price.

It was explained that a key headline in the report was the cost of investment and when compared with the previous year there was an increase due to the cost of investments. In 2018/19 the Fund spent £1m less as it was able to recharge some transaction cost to Greater Manchester for the transfer of the First Bus Company. It was reported that investments was an area which could not truly be controlled as the cost of investment depended on the activities of the market.

Members were advised that the most relevant part, not shown in the report but which could be included in the future, was that whilst costs were expected to increase from £34 per member last year to £42 per member the second place fund had a cost of £65 per member so there was still a significant gap. In the current environment, and in discussions with peer funds, it had been noted that all funds' costs would increase because of the requirement to invest in agile working practices. It was not expected that the fund would be displaced from its top spot and the high quality of service not be impacted.

It was questioned if the acquisition of new business would reduce the average cost per member and Members were advised that increased shared services would reduce costs for pension administration but not for investment activities as those were not shared.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

7. WEST YORKSHIRE PENSION FUND UNAUDITED REPORT AND ACCOUNTS FOR 31 MARCH 2020

The report of the Director, West Yorkshire Pension Fund, (**Document “D”**) advised Members that in order to comply with statutory accounting requirements for Local Government and Local Government Pension Schemes, WYPF must prepare an annual audited Report and Accounts. The 2019/20 Reports and Accounts were presented to the Joint Advisory Group to note, before being presented to Bradford Council Governance and Audit Committee later in the year for approval.

The Report and Accounts, appended to Document “D”, provided a summary of West Yorkshire Pension Fund’s financial position at the end of the year and key financial activities during the year ended 31 March 2020. The accounts were prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Latest Pensions Statement of Recommended Practice
- International Financial Reporting Standards (IFRS), as amended for the UK public sector

The key headline in the report was that the investment value had reduced. No assets had been lost but the value had reduced as expected and between January and March 2020 the Fund had reduced by approximately £2 billion of value. The latest value, however, had seen an increase to the higher point of £14 billion and was now encroaching £15 billion market gain. When comparing the accounting value to performance value of investments the fund had lost 8% between 2018/19 and 2019/20 and that was a reflection of the impact of COVID-19. Assurances were provided that the fund was still well funded and had a good net cash flow. Nothing had been seen in the cash flow which would impact on the Fund’s ability to pay pensions; to fund operations or meet investment commitments. It was confirmed that the aim would be to keep costs per member around £43 and not to exceed £45 over the next three years.

It was explained that ordinarily, at this time of year, the financial statements would be finalised for approval by the Governance and Audit Committee. In light of the current pandemic the Government had extended the deadline to reflect that auditors had not been able to access the offices and the report being considered was still in draft form. It was expected that the report would be finalised for approval by September and when that was completed an electronic version would be circulated to management and the Joint Advisory Group.

A Member, whilst welcoming the report and acknowledging the amended deadlines, explained that, as a representative of the Joint Advisory Group, all concerns he heard from members was about climate change and investment in fossil fuels. He suggested that a comment on that topic be included in the Chair’s

statement or foreword to the accounts. Other Members echoed his request that the report should refer to those issues.

A Member believed that the reference to the annual meetings did not reflect the lively discussion based on questions from Members and about fossil fuels. It was acknowledged that the meeting held in November 2019 had been considerably different from those in previous years and it was agreed that the very lively debate could be highlighted.

Following suggestions that the gender pay gap and adherence to the living wage could be included it was confirmed that the Fund did meet the living wage including casual or work experience employees. A gender pay gap analysis had been conducted by Bradford Council but the final version had not yet been provided. There had been previous reports and in March 2019 it was known that in Bradford there was a gap of about 7.3; Leeds had a gap of 6 and when compared with neighbouring authorities Bradford was in second place and it was agreed that the information could be included in the final version.

A Member, whilst acknowledging the report referred to the year to March 2020, suggested that it should include the impact of COVID-19 on equity values and risks to the Fund's investments.

It was also suggested that, in light of conversations earlier in the meeting and the lack of a decision matrix for investments, more detail on investments should be included in the report in future. That view was echoed by a number of Members.

Members were thanked for their comments and their engagement and, as the report was in development, all comments would be taken on board and, where possible, their views would be included in the updated version.

Resolved –

That the unaudited report and accounts for 2019/20 be noted.

ACTION: Director, West Yorkshire Pension Fund

8. LOCAL GOVERNMENT PENSION SCHEME REGULATIONS UPDATE

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

The report revealed the Government's intention to reintroduce the Pension Schemes Bill and the implications of that proposal was questioned. At that moment the report author encountered connection issues and her colleagues, agreed that Members contacted with that information after the meeting.

Consultation on restricting exit payments were discussed and a Member queried if that had been implemented and what payments would be included. It was explained that the £95,000 pay cap would definitely happen and the cap would

include redundancy payments. The restrictions had not yet been implemented and the Fund were waiting for an implementation date.

The impact on the final salary of members who had been furloughed was questioned and it was explained that final salary calculations were based on the best of the preceding three years.

Members were advised that both HMT and MHCLG had published consultations on the McCloud remedy and links to those documents were provided. In response to questions Members were advised that an underpin would be provided to some members who would not otherwise have been entitled to that protection. It was explained that 30,000 members; 30% of the Fund, would be impacted and work was in progress to secure the additional software which would be needed for the calculations required.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

9. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDERS

West Yorkshire Pension Fund has 3 Additional Voluntary Contribution Providers, namely:

- Utmost Life and Pensions (previously Equitable Life),
- Scottish Widows, and
- Prudential.

Annually the West Yorkshire Pension Fund asked financial advisors 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 "F"**) outlined the findings of the latest review.

The report revealed that Prudential International Fund had managed to provide a positive return over five years though more recent performance had been particularly disappointing. The advisors had regarded that level of under-performance to be significant and had recommended that the Administering Authority remove or replace that fund.

It was questioned how many members had switched to a salary sacrifice scheme and it was reported that the Fund would not have that information but that the AVC providers would have that detail.

The number of providers included in the review was questioned and it was confirmed that the review had considered only the current providers.

It was explained that Prudential was the largest provider in Local Government Pension Schemes, over 90% of providers used that firm, and regular meetings

were held with client managers. Scottish Widows were a smaller company and did not have specific LGPS specialist knowledge and support.

Members were advised that due to the complexity of LGPS regulations many providers were reluctant to engage in LGPS business but it was agreed that contact would be made with the advisors Review Team to ascertain if additional comparisons could be included in the review.

Resolved –

That, in light of the comments made at the meeting, the Director, West Yorkshire Pension Fund, request AON's Review team to include additional AVC providers in the review and provide further information for consideration at the next meeting.

ACTION: Director, West Yorkshire Pension Fund

10. ACTUARIAL VALUATION 2019

The report of the Director, West Yorkshire Pension Fund (WYPF), (**Document "G"**) advised Members that the triennial actuarial valuation of the West Yorkshire Pension Fund had been prepared based on the situation at 31 March 2019 and determined the level of employers' contributions for the period 1 April 2020 to 31 March 2023.

The report revealed that at 31 March 2019, WYPF was 106% funded and comparisons were made to the situation at 31 March 2016 when that figure was 94%. That valuation combined with a positive cash flow demonstrated that the Fund was in a sound financial position. In response to questions it was explained that, due to the current pandemic, the fund level was 92% at the end of March 2020.

A copy of the statement from the Actuary for the year ended 31 March 2020, which summarised the results of the valuation, was attached as Appendix A to Document "G".

It was acknowledged that the financial climate had changed significantly since 31 March 2019 and unless investment markets recovered strongly contributions may need to be revised. The Director, WYPF, explained that he had advised against the recent reductions which were part of the valuation deal and had suggested that a three year agreement be reached to prevent revisions being required and the costs of review being incurred. In response to questions about the timeliness of a decision regarding increased contributions it was explained that the Fund would endeavour to consider the situation before the next Council budget preparations meetings began.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

11. FUNDING STRATEGY STATEMENT (FSS)

The report of the Director, West Yorkshire Pension Fund (WYPF) (**Document “H”**) advised Members that following a consultation exercise with all stakeholders WYPF’s current Funding Strategy Statement (FSS) required updating to cater for two key items:

- Changes to the Local Government Pension Scheme (LGPS) Regulations relating to exit credits, which came into effect on 20 March 2020, effective from 14 May 2018; and
- Changes to how new admissions were administered, to reduce administration and advisory fees and to provide a further option for employers via the introduction of a pass through (“pooling”) approach with effect from 1 April 2020.

WYPF had also taken the opportunity to clarify that the costs of employers joining and exiting the Fund would generally be re-charged to the relevant employers to avoid all employers in the Fund picking up those costs (which would principally relate to actuarial and legal fees).

A Member referred to investment risk and the risk of assets not delivering the required return. He explained that he had previously requested that the Chair commission an environmental statement and provide a clear strategy on investment in fossil fuels. He felt that the FSS should include more information on climate change and measures to mitigate risks. He felt that he could not support the changes to the FSS without that information being included. An additional Member agreed with that statement and whilst she had no issues with the amendments suggested she believed it was her duty to have an oversight of the risks and plans to mitigate the risks of investments in fossil fuels. That sentiment was echoed by colleagues.

In response Members were reminded that they were being asked to approve two changes to the FSS which were required by the LGPS Regulations and that the item was not intended to be a debate about the strategy in general. A Member, in addition to his agreement with that statement, expressed his confidence in investment advisors.

In response the Members who had suggested an environmental statement be prepared confirmed that their request was not a criticism of investment managers. They believed that to exercise their fiduciary duties they should be aware of how investment decisions were made and that a matrix portraying the strategic direction of investments, and measures to mitigate risk, should be included in the FSS.

No resolution was passed on this item.

12. REGISTER OF BREACHES OF LAW

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

Section 70 of the Pensions Act 2004 imposes a requirement to report a matter to The Pensions Regulator, as soon it was reasonably practicable where that person had reasonable cause 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 law was maintained in accordance with West Yorkshire Pension Fund (WYPF) Breaches Procedure.

Document “I” also explained that as a result of the current COVID 19 pandemic WYPF had updated its approach relating to the payment of employers’ contributions during the coronavirus emergency including requests for deferral of payments.

In the period up until the beginning of June the Fund had received a number of enquiries regarding deferment of employer contributions, however, no formal applications had been received. A copy of the Employer Contribution Payment Deferral Policy was appended to the report.

It was explained that the employers listed on the register as failing to make employer contributions by the appropriate date had not previously missed the payment deadlines. It was felt the situation had occurred as schools were closed due to the current COVID-19 situation and staff were not in work.

A representative referred to salary sacrifice details being directed to the wrong people. He was advised that this would not be a breach to be reported to The Pension Regulator but should be reported to Bradford Council as a breach of data policy. It was agreed to investigate that issue on his behalf.

Resolved –

- (1) That the 2019/20 and 2020/21 Register of Breaches, appended to Document “I”, be noted.**
- (2) That the Employer Contribution Payment Deferral Policy, appended to Document “I”, be approved.**

ACTION: Director, West Yorkshire Pension Fund

13. TRAINING, CONFERENCE AND SEMINARS

The Director, West Yorkshire Pension Fund, presented a report (**Document “J”**) which reminded Members that their training, to understand their responsibilities and the issues they were dealing with was a very high priority. Details of training courses, conferences and seminars listed may assist Members. Full details about each event were available at the meeting.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

14. EXCLUSION OF THE PUBLIC

Resolved –

That the public be excluded from the meeting during consideration of Document “L” containing Not for Publication Appendix 1, relating to the Northern LGPS (NLGPS), because information would be disclosed which is considered to be exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the financial implications of any decision without prejudicing the financial position of the West Yorkshire Pension Fund.

15. NORTHERN LGPS (NLGPS)

The Director, West Yorkshire Pension Fund, presented a report (**Document “L” containing Not for Publication Appendix 1**) which reminded Members that, in accordance with the guidance from Government, West Yorkshire Pension Fund (WYPF) together with Greater Manchester (GMPF) and Merseyside (MPF) Local Government Pension Funds had established an investment pool, Northern LGPS (NLGPS).

Document “K” set out the progress of the Northern LGPS (formerly the Northern Pool).

Resolved –

That the report, together with Not for Publication Appendix 1, be noted.

ACTION: Director, West Yorkshire Pension Fund

16. **EXCLUSION OF THE PUBLIC**

Resolved –

That the public be excluded from the meeting during consideration of the item relating to the West Yorkshire Pension Fund Restructure because information would be disclosed which is considered to be exempt information within paragraph 4 (Labour Relations, Consultation or Negotiation) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the implications of any decision without prejudicing the Labour Relations, Consultation or Negotiation position of the West Yorkshire Pension Fund.

17. **WEST YORKSHIRE PENSION FUND RESTRUCTURE**

The Director, West Yorkshire Pension Fund, presented a report, **Not for Publication Document “K”**, which considered the West Yorkshire Pension Fund restructure.

Resolved -

That the report 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 West Yorkshire Pension Fund Joint Advisory Group.

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