

Report of the Director, West Yorkshire Pension Fund to the meeting of Governance and Audit Committee to be held on 30 October 2015.

Subject:

X

Minutes of West Yorkshire Pension Fund (WYPF) Joint Advisory Group held on 23 July 2015.

Summary statement:

The Council's Financial Regulations require the minutes of meeting of the WYPF Joint Advisory Group to be submitted to this committee.

Rodney Barton
Director

Portfolio:

Leader of Council & Strategic Regeneration

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**Overview & Scrutiny Area:
Corporate**



Minutes of a meeting of the West Yorkshire Pension Fund Joint Advisory Group held on Thursday 23 July 2015 at West Yorkshire Pension Fund, Aldermanbury House, Bradford

Commenced 1300

Concluded 1415

PRESENT – Councillors

<u>Bradford Members</u> Thornton (Ch) Miller (DCh)	<u>Calderdale Members</u> Lynn Metcalf
<u>Kirklees Members</u> Mather Richards	<u>Leeds Members</u> Dawson
<u>Wakefield Members</u> Forster Jones	<u>Trade Union Representatives</u> I Greenwood – Unison L Bailey - Unison

Apologies: Councillor Speight (Wakefield); Councillor Firth (Kirklees); Councillor Baines (Calderdale); Councillors Davey and Harrand (Leeds), Scheme Member K Sutcliffe

1. ELECTION OF CHAIR**Resolved -**

That Councillor Thornton be elected Chair for the Municipal Year 2015/16.

Councillor Thornton in the Chair**2. ELECTION OF DEPUTY CHAIR****Resolved -**

That Councillor Miller be elected Deputy Chair for the Municipal Year 2015/16.



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.

In the interest of transparency Ian Greenwood disclosed that he would shortly be involved in work for private equity providers Bridgepoint and declared that when that work was commenced he would no longer participate in discussions about that company.

Action: *Assistant City Solicitor*

4. MINUTES

Resolved -

That the minutes of the meeting held on 29 January 2015 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 (WYPF) ADMINISTRATION BUDGET OUTTURN 31 MARCH 2015

The report of the Director, West Yorkshire Pension Fund (WYPF) (**Document “A”**) summarised the total costs of administering pensions and investments costs for 2014/15.

Appended to the report was an analysis of the 2014/15 expenditure between pensions administration and investments and comparisons of those costs to the 2014/15 estimates and last year’s spend.

The total cost of managing the portfolio was reported together with investment costs per member for 2014/15 which, it was revealed, was likely to be the lowest cost for Local Government Pension Scheme investments when figures were produced later in the year.

The report revealed a favourable variance between the estimate and outturn figure for 2014/15 and this was reported as being mainly due to reductions in accommodation costs; an under spend on the actuarial cost; reductions in employee costs due to staffing and systems efficiencies; reductions in support service recharges; printing and posting cost reductions and other running cost reductions as a result of efficiencies across the fund.

Members questioned what contribution the fund made towards training employees and the provision of apprentice schemes. They were advised that the fund had an established training and development programme for existing staff and had recruited four apprentices. The provision of graduate opportunities for young people was also being considered.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

7. **UNAUDITED REPORT AND ACCOUNTS 2014/15**

The Director, West Yorkshire Pension Fund submitted the unaudited Report and Accounts which provided a summary of West Yorkshire Pension Fund's financial position for the year ended 31 March 2015 (**Document "B"**). It was reported that an update report would be presented after the completion of the year end audit by Mazars LLP.

Document "B" revealed the value of the Fund over the year to 31 March 2015 had increased by 9.17%. The closing net assets of the Fund over the previous five years were presented.

A significant reduction in net cash flow was reported compared to the 2013/14 figures as a result of a transfer of cash for Probation Services, Ministry of Justice Pensions, to Greater Manchester Pension Fund.

The return of investments was reported as above the Fund specific benchmark, however, was below the average return of all local authority pension funds and placed the Funding in the 73rd percentile of all local authority funds. Annualised averages for the medium and long term were provided. Active membership increases were reported and resulted in an increase of 4.8% from 256,561 to 268,780 members.

Reduced costs and increased membership were welcomed and the Director, West Yorkshire Pension Fund, attributed the success to the Fund's employees. It was explained that publicity, marketing and support for those auto enrolled to the scheme had resulted in members remaining with in the Fund.

Members questioned the key issues which trustees should consider regarding employee contributions and deficits. In response it was explained that a 22 year plan had been developed which would allow for a gradual adjustment of budgets to recover the deficit.

The return comparison for Property versus Gilt and UK Equity returns provided in the Investment Markets chapter of the accounts was discussed and an indication of investment in property in the Leeds City Region was requested. In response it was explained that the bulk of investments were spread throughout the country, however, details of investments of approximately £30million in the Yorkshire and Humberside Region were provided. It was requested that, when considering investment, the area of benefit for Members of the WYPF be considered.

Resolved -

That the unaudited Report and Accounts of the West Yorkshire Pension Fund for the financial year ended 31 March 2015, appended to Document "B", be approved.

ACTION: Director, West Yorkshire Pension Fund

8. **EXTERNAL AUDIT STRATEGY MEMORANDUM FOR WEST YORKSHIRE PENSION FUND 2014/2015**

The External Auditor (Mazars LLP) presented a report (**Document "C"**) which set out the plan in respect of the external audit of West Yorkshire Pension Fund for the year ending 31 March 2015. The document set out the audit approach, included an assessment of the significant risks of material misstatement in the accounts and outlined the proposed testing strategy to address the identified risks. It was reported that the document had been

approved by the Governance and Audit Committee and Members were asked to note the Audit Strategy Memorandum for 2014/15.

Members were advised that the International Standard on Auditing (ISAs) required external auditors to communicate with Those Charged with Governance (TCWG) on a number of matters including significant risks and how the auditor proposed to address them.

Significant risks and key judgement areas contained in the external audit plan included the auditor's responsibility to consider fraud in an audit of financial statement which required auditors to consider the potential for management override if controls were insufficient to detect error or may not be effective in detecting fraud. An additional risk identified was the valuation of unqualified investments. A bespoke range of audit procedures were in place to address risks and assurances were provided that no specific concerns had been identified in the way that the Fund operated. The requirement on TCWG was a standard which must be considered in all audit reports.

The Director, West Yorkshire Pension Fund, advised Members that the audit fee for the coming year had been secured at the rate for the previous year.

Resolved –

That the Audit Strategy Memorandum for 2014/15 be noted.

ACTION: Director, West Yorkshire Pension Fund

9. WEST YORKSHIRE PENSION FUND CONFLICT OF INTEREST POLICY

The Director, West Yorkshire Pension Fund presented a report, (**Document “D”**) which introduced the West Yorkshire Pension Fund Conflict of Interest Policy.

It was reported that from April 2015 certain public sector pension schemes must be governed and administered under the Public Service Pensions Act. Managers and Pension Board members must, therefore, comply with a number of legal requirements. One requirement was to ensure that any Conflict of Interest was properly identified and managed. It was explained that procedures had been in place for a number of years to address that issue but those procedures must now be formally documented.

A copy of the Conflict of Interest Policy was appended to the report and Members were advised that a Register of Interests would be established and available at each meeting.

Resolved –

That the Conflict of Interest Policy, attached as an appendix to Document “B” be approved.

ACTION: Director, West Yorkshire Pension Fund

10. LOCAL GOVERNMENT PENSION SCHEME 2014

The report of the Director, West Yorkshire Pension Fund (**Document “E”**) updated the Joint Advisory Group on changes to the Local Government Pension Scheme Regulations

(LGPS) 2014 including an update on the establishment of the West Yorkshire Pension Fund's (WYPF) Pension Board. It was reported that since the introduction of the new LGPS there had been two sets of amendment regulation issued:-

- Local Government Pension Scheme (Amendment) Regulations 2015
- Local Government Pension Scheme (Amendment) (Governance) Regulation 2015.

The first revision was a technical amendment. The second amendment was the requirement to establish a Pension Board and had been discussed at the meeting on 29 January 2015. The Terms of Reference for the Pension Board were appended to the report. It was explained that due to the strict time schedule for the organisation of the board its establishment and Terms of Reference had been approved at the Governance and Audit Committee.

Document "E" also reported overriding legislation which had been introduced covering Freedom of Choice and The Role of the Pensions Regulator.

Members of the Pension Board were currently being nominated and it was envisaged that the first meeting would be held in the autumn.

Resolved -

- (1) **That the report be noted**
- (2) **That the Pension Board's Terms of Reference, appended to Document "E" be noted.**

ACTION: Director, West Yorkshire Pension Fund

11. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDERS

A report was submitted by the Director, West Yorkshire Pension Fund (**Document "F"**) in relation to the findings of the annual review of the performance of the Additional Voluntary Contribution Providers in terms of investment performance, financial strength, investment capabilities, charging structure and administration.

Document "F" revealed that West Yorkshire Pension Fund had three Additional Voluntary Contribution Providers, namely:

- Equitable Life Assurance Society,
- Scottish Widows, and
- Prudential

Annually the West Yorkshire Pension Fund asked consulting actuary Aon Hewitt's Investment Consulting Division 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 outlined the findings of the review.

A Member referred to the requirement to ensure that Additional Voluntary Contributions (AVCs) were procured to provide the best value for members. He questioned how value for money was demonstrated and why, when the retirement age had been extended, beneficiaries may be disadvantaged financially. In response it was explained that Aon Hewitt's Investment Consulting Division acted as the Fund's independent advisor and

compared the providers in the market. The code of practice and regulatory guidance followed was appended to Document "F". The Member questioned the rates quoted and it was agreed that he would discuss the issue with the Director, West Yorkshire Pension Fund, out side of the meeting.

The view that people having AVCs arranged by the WYPF would expect WYPF to be responsible for that provision was expressed and assurances were provided that Aon Hewitt met regularly with providers and AVC arrangements were monitored.

Resolved –

- (1) **That the outcome of the annual review of WYPF's Additional Voluntary Contribution Providers be noted.**
- (2) **That the recommendations of Aon Hewitt in respect of the changes to the lifestyle options as set out in paragraphs 3.6; 3.8 and 4.5 of Document "F", be approved.**
- (3) **That the changes to available funds set out in section 5 of Document "F" and the list of approved funds set out in Appendix D to Document "F" be approved.**

ACTION: Director, West Yorkshire Pension Fund

12. **ACTUARIAL VALUATION 2016**

The report of the Director, West Yorkshire Pension Fund, (**Document "G"**), informed Members that the triennial actuarial valuation of the West Yorkshire Pension Fund was due on 31 March 2016 and would determine the level of employers' contributions from April 2017 onwards. An initial meeting with the Actuary would be arranged in the autumn when the issues relating to the valuation and investment markets would be explored in some depth.

In response to discussions about the issues to be discussed at that meeting a Member stressed his belief that stability of contributions was a key factor. He believed that there would be some scope to reduce optimism in some assumptions but that maintaining the level of contributions would be the sensible approach to take.

It was stressed that as the data for the valuation would be submitted soon after the financial year end employers would be reminded that meeting the deadline for year end returns at 31 March would be essential to ensure the data submitted to the actuary was as accurate as possible. Following questions it was confirmed that there had been problems obtaining that information on time for previous valuations and officers were working hard to ensure that monthly contribution returns were received.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

13. RISK MANAGEMENT

The Director, West Yorkshire Pension Fund presented the latest Risk Management Report for the West Yorkshire Pension Fund (**Document “H”**).

The report identified 43 risks associated with the operation of the West Yorkshire Pension Fund which was a reduction from 46 in the previous report. The risks which had been removed were the introduction of the Local Government Pension Scheme 2014; the relocation of the WYPF head office and security in the previous Argos Chambers location. Members were advised that the new premises had the benefit of 24 hour security and alarms.

It was explained that officers had identified all risks which had been rated and plotted on a matrix and a risk tolerance line agreed in order to prioritise the risks. The matrix measured each risk for its likelihood and impact in terms of its potential for affecting the ability of WYPF to achieve its objectives.

Resolved –

That the latest Risk Management Report for the West Yorkshire Pension Fund, appended to Document “H”, be noted.

ACTION: Director, West Yorkshire Pension Fund

14. SHARED SERVICE PARTNERSHIP WITH LINCOLNSHIRE PENSION FUND

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

Document “I” revealed that the transfer of service from Mouchel, the previous administrator, to WYPF had gone smoothly with little impact on the wider membership of both WYPF and LPF.

A number of issues had arisen including some overpayments made by the previous administrators which were now being addressed. Difficulties had also been incurred in obtaining pensions information regarding Lincoln County Council employees from Serco, who provided the Human Resources Function for Lincoln City Council, as they lacked the resources or expertise to provide that information. Serco were recruiting staff to alleviate the issue and WYPF was supporting them by providing staff who could extract the information required.

It was explained that following the announcement that Contracting Out would cease in 2016, HM Revenue and Customs (HMRC) had arranged for Pension Schemes to reconcile the Guaranteed Minimum Pensions (GMPs) with records held by the Department for Work and Pensions (DWP). The Pensions Unit had registered their interest with HMRC and had now received initial data. It was felt that potential issues could arise if DWP records were inaccurate and the issue may be the subject of a future report to the Joint Advisory Group.

In response to questions about the level of satisfaction with the transfer a Member referred to a meeting he had attended where it had been reported that the level of cooperation provided by WYPF had been outstanding.

Following questions about the cost effectiveness of the partnership it was reported that the cost per member was estimated to meet targets and expected to reduce further.

Members questioned if lessons had been learned throughout the transfer process which could be utilised in the future. In response it was confirmed that issues had been minor and had been recorded and would be reviewed. Some difficulty had been experienced because of the condition of record keeping which had been unknown at the commencement of the process.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

15. TRAINING, CONFERENCES AND SEMINARS

Members were advised that the training of Joint Advisory Group Members to understand their responsibilities and the issues they would be dealing with was treated as a high priority.

The Director, West Yorkshire Pension Fund submitted a report, (**Document “J”**), which informed Members of training courses, conferences and seminars which may assist them. Full details of those events were available at the meeting.

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

No resolution was passed on this item.

16. ANNUAL MEETINGS

The report of the Director, West Yorkshire Pension Fund (**Document “K”**) informed Members that the West Yorkshire Pension Fund would hold two Annual Meetings in 2015, with one meeting being for employers and one arranged for scheme members.

Resolved –

That the details of the WYPF Annual Meetings for 2015 be noted.

ACTION: All Members

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the Committee.