

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 5th November, 2015

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Steve Harman (Employer Representative), Tom Renhard (Member Representative) and David Yorath (Member Representative)

Also in attendance: Andrew Pate (Strategic Director, Resources), Tony Bartlett (Head of Business, Finance and Pensions), Jeff Wring (Head of Audit West) and Andy Cox (Audit Manager)

16 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

17 APOLOGIES FOR ABSENCE

There were none.

18 DECLARATIONS OF INTEREST

There were none.

19 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair thanked officers for the excellent training session on LGPS benefits administration that had taken place before the meeting. Members had noted the many changes taking effect on 1st April 2016 that would impact on pension funds. These included:

- negative CPI
- the State Second Pension
- National Insurance changes
- tax changes

The Head of Business, Finance and Pensions invited Members to let officers know if they felt a need for more information on specific issues. This could be provided via a phone call or a training session, as appropriate. Members said that they would be helped by more information on the valuation process and by looking at key comparative data for other LGPS funds. The Head of Business, Finance and Pensions said that comparative information would need to put in context by taking into account demographic and longevity data for each area.

RESOLVED it was agreed that the 2016 valuation and comparative benchmarking of the fund should be part of future training and future pension board work respectively.

20 ITEMS FROM THE PUBLIC

There were none.

21 ITEMS FROM MEMBERS

A Member questioned the appropriateness of some of the paperwork on the agenda. He said that as he understood it, the role of the Board was to focus on governance, compliance and risk. He therefore wondered why, for example, it was necessary for the Avon Pension Fund's latest financial statements and that had already been approved by the Pension Fund Committee, to be copied with the agenda. The agenda papers of the Committee were already easily accessible to Members, and he wondered what the Board was supposed to do with this agenda item and how it could add value. Another Member said that information presented to the Board needed to be contextualised.

The Chair said that the Board had only just been established and was still in the process of establishing a mode of operation, it had to keep its statutory duties in clear view at all times. These were to secure compliance with the LGPS regulations and the requirements of the Pensions Regulator and ensure efficient and effective governance and administration of the scheme. To do that it was vital that Members should read and understand the papers that had gone to the Pensions Committee in order to perform their role, but the Board would not necessarily need to receive exactly the same papers. The Board should be examining the basis of how decisions were taken by the Pensions Committee and their implementation.

The Member who had raised this issue suggested that the Board should be examining whether the Committee was doing what it was supposed to be doing, or whether there were any gaps. The Chair agreed and, said that in future the Board should assure itself, for example, whether the Report and Accounts of the Avon Pension Fund had been prepared in accordance with LGPS regulations and CIPFA LGPS accounting guidance.

The Head of Business, Finance and Pensions said the Fund's annual report contained important information about governance, and drew attention to the section on fund governance beginning on page 134 of the agenda. This should be useful background information for Members and it was important that Members were aware that it existed.

RESOLVED that future Board agendas will enable Members to raise issues on the content and format of meeting papers.

22 MINUTES OF PREVIOUS MEETING

The minutes of the meeting of 30 July 2015 were approved subject to the following amendment:

page 4, item 14, last paragraph: "monitor compliance" should be "monitor and secure compliance"

The Chair requested an update on the progress of appointing the two additional Members of the Board (Minute 8). The Head of Audit West reported that a potential candidate for the additional employer representative had been identified, and that the recruitment process for the remaining employee representative would close in the

first week of December. He confirmed that the Board should be up to full strength by the time of the next meeting.

The Chair invited Members to give feedback on their experience of the fund training (Minute 13) so far and members indicated it was useful.

23 AVON PENSION FUND COMMITTEE MINUTES

The Board considered the Minutes of the Avon Pension Fund Committee meeting of 25th September 2015.

A Member asked about Agenda Item 29 and the Committee's unwillingness to approve a collective investment vehicle in principle. The Head of Business, Finance and Pensions said this arose from a lack of clear guidance from the Government. There had been speeches and references in the Budget, but nothing definite. However, the Committee had understood that the Government intended to compel funds to adopt collective investment procedures if they did not do so voluntarily. Under these circumstances the Committee had not rejected the principle, but had adopted a cautious approach and had authorised continuing work with the other Funds on proposals for a collective investment vehicle.

A Member noted the information in agenda item 27 to overpayments of contributions by Bristol City Council and asked what arrangements had been put in place to prevent a recurrence. The Head of Business, Finance and Pensions said he did not know off hand whether the money had been repayed; it was up to Bristol City Council to decide whether they wanted a repayment, or for the fund to treat the overpayment as a prepayment of contributions. The issue arose because before the last valuation calculating employer contributions had been simple: they were always 6% of pay. After the valuation employers had to contribute a lump sum towards deficit reduction, and there was no longer a simple method of calculating contributions. The Chair said that the overpayment was a systemic failure by Bristol City Council and, to some extent, the Fund's processes. Whilst it occurred before the establishment of the Pension Board it would provide a good example to think about in terms of the Breaches Policy and future reporting to the Pensions Regulator.

No issues were raised on the minutes of the Investment Panel meeting of 11th September.

RESOLVED to note the minutes of the most recent meetings of the Avon Pension Fund Committee and Investment Panel.

24 LGPS DEVELOPMENTS AND UPDATES

The Head of Business, Finance and Pensions presented the report.

He said that the Government was encouraging LGPS funds to merge or pool their assets in order to reduce fees. In his budget speech the Chancellor indicated the direction of travel that he wanted, and set out some suggested criteria for the size of funds. The Chancellor wanted there to be six very large pooled funds. If funds did not pool investments voluntarily, there would be backstop legislation to force them to do so. The London Pensions Fund had established a partnership with the Lancashire

County Fund. Several LGPS funds in the South West, including the Avon Fund, had established a joint project to examine options for pooled investment. Options were being subjected to cost-benefit analysis. A pooled fund would not be created overnight; there were, for example, issues relating the pooling of liquid and illiquid funds. The Funds also had different strategies and funding levels. A Government statement is expected in November setting out criteria and a timetable, to which Funds will have to respond. Any proposed pooling arrangements would have to be approved by the individual governing bodies of each Fund.

A Member asked whether only investments would be merged or whether administration would be merged as well. The Head of Business, Finance and Pensions replied that it seemed likely that when a substantial portion of investments had been merged, there would be questions raised about merging administration. The Government had in fact looked at the possibility of merging all Funds into one in 2008. His expectation was that pooling investments would be a sufficient challenge for the next four–five years and that Government would not wish to change too much all at once.

The Chair reminded the Board that it should keep its terms of reference constantly in mind. There were no LGPS or TPR compliance issues involved in the pooling of Funds, because currently there were no specific regulations or legislation about it, but the Board did have interest in it because of its duty to ensure effective and efficient governance. The Board would be assisted in this by comparing how other funds were implementing pooling arrangements. He suggested that one positive action the Board could take would be to ask “what would governance look like in the future?” if there was a full pooling of assets.

The Head of Business, Finance and Pensions said that a move towards greater integration between Funds would raise governance issues about the role of the Council, the Committee and officers in relation to delegations.

A Member suggested that it was possible that participation in pooling arrangements might increase investment risks for the Avon Fund.

The Head of Business, Finance and Pensions commented on a table he had distributed, which summarised other changes affecting the LGPS. This is attached as Appendix 1. The Chair said that the presentation of this information in tabular form was extremely helpful and that he would welcome the presentation of appropriate information in this format at future meetings.

RESOLVED to note the report and latest developments and that Members should receive training about governance so that they had a clear understanding of the roles of the Council, the Committee, the Panel and the Board.

25 TRAINING PLAN UPDATE

The Head of Audit West introduced the report. He drew attention to Appendix 1, which tabulated the knowledge and skills responsibilities under the Pensions Regulator’s Code of Practice no 14. He said that training comprised several aspects. There was formal training provided by Pensions officers to Members, the second session of which had taken place immediately before today’s meeting. Secondly,

there was the possibility of joint events involving members of the Pension Boards of other Funds, but he suggested these would be more effective if these took place later after the initial period of getting the Boards up and running. Thirdly there was Members' individual learning; he drew attention to the competency self-assessment matrix in Appendix 2.

Members gave updates on their attendance at LGE Pensions Fundamental Course training events. No Member had yet completed the tPR e-learning trustee toolkit. The Chair said it would be good if they could do so by 31st March, so that it could be reported in the Board's first Annual Report.

Members discussed the self-assessment matrix. The Head of Audit West suggested that Members did not complete and return it until they had finished the Pensions Fundamental Course. He would then discuss with the Chair how Members' training records could be update.

RESOLVED to note the proposals to develop a training plan and for members to complete the tPR e-training by 31st March.

26 CONFLICTS OF INTEREST POLICY

The Chair said that he had requested that this item be put on the agenda because the Pensions Regulator's supervision of Local Pensions Boards would include checking whether they had a conflicts of interest policy and whether declarations of interest had been made as required.

The Head of Audit West presented the report. He said that further work had been done since the last meeting on whether the Board should have its own code of conduct and conflict of interest policy distinct from that of the Council. It was now proposed that it should, and the draft policy was given in Appendix 1 to the report. In response to a question from a Member, he said that the policy, if agreed, would come into effect from the end of the year.

RESOLVED to agree the policy at Appendix 1.

27 REGULATORY BREACHES POLICY

The Head of Audit West presented the report. He explained that there was a legal requirement on Local Pension Board Members (as well as Pension Fund Committee Members, officers, employers and advisers) to report material breaches of relevant laws and regulations to the Pensions Regulator. The Pensions Regulator Code of Practice no 14 advised that pension funds should have a procedure in place to identify and assess breaches.

The Head of Business, Finance and Pensions commented on the draft policy and clarified its context. He drew attention to the fact that the Board was being invited to recommend the policy to the Committee for adoption.

Members and officers discussed the draft policy. It was felt that before the policy could be recommended it needed further work on a number of aspects, including the

level of detail, the definition of materiality and the specific duties of Members of the Pension Board.

The Chair noted that other Pension Funds designate the Monitoring Officer rather than the Section 151 Officer as the responsible officer for recording and reporting breaches. The Strategic Director of Resources responded that in the case of the Avon Pension Fund the independent Section 151 Officer has responsibility for the day-to-day supervision of the Fund, which would be of great assistance to him in discharging the role of responsible officer for recording and reporting breaches.

RESOLVED that the policy should be revised and come to the Board's next meeting.

28 ANNUAL REPORT AND FINANCIAL STATEMENTS

The Chair said that as agreed in previous discussion the Board should seek to review the Fund's Annual Report and Accounts earlier in future years.

The Head of Audit West presented the report.

The Head of Finance, Business and Pensions commented on the External Audit Governance and Annual Report.

The Head of Audit West and the Audit Manager commented on the Internal Audit Report.

There was a discussion between Members and officers.

The Chair reiterated that the focus of the Board was on compliance with regulations and requirements. How would the Board get assurance that accounts had been prepared in accordance with regulations and CIPFA guidance? The Head of Business, Finance and Pensions responded that there were statutory requirements for reporting and rules about the reporting of assets and liabilities; breaches would be picked up by the external auditors.

The Strategic Director of Resources pointed out that there was now a separate external audit report for the Avon Pension Fund, and that following a recommendation from the external auditor the Committee had decided that the Fund would separate its bank account and other financial arrangements from the Council's. This was a good instance of the Fund improving its governance following advice, and established a good starting point for the work of the Board.

A member asked about the Governance Compliant statement in respect of the Committee composition. The Head of Business, Finance and Pensions referred to the changes in the composition of the Committee over the past ten years, including the appointment of Independent Members, who came from other areas and were entirely independent of the Fund. He thought the Committee now had a very broad representation of the Fund's members in the public sector. In the past few years, however, public sector functions had increasingly been outsourced to the private sector, as for example in the case of academies. Looking forward, there would an increasing number of members in organisations performing outsourced functions and some form of democratic means of representing them would have to be developed.

The Chair indicated the Pension Board would review the Fund's governance arrangements in due course.

A Member asked how the Investment Panel monitored transaction costs. The Head of Business, Finance and Pensions that responded that changes to CIPFA rules had revealed that many internal fees had not been disclosed in previous accounting statements. He said that there was difficulty in measuring transaction costs in pooled funds because the costs were shared; investment managers would have to do more analysis to ensure that they were fully measured, so it was not clear that there would be cost savings from the pooling of funds.

The Chair asked for the Board to be advised on the separation of the BANES and Avon fund accounting, and for clarification that the fund's next accounts would be prepared and audited against the CIPFA LGPS accounting disclosure checklist.

Responding to comments from Members, the Strategic Director of Resources said that it was not clear at present whether the audit programme of the Fund properly reflected the statutory role of the Board. This would only become clear over time.

RESOLVED to note the report and issues raised with regard to the future work plan of the Board.

29 ADMINISTRATION STRATEGY

The Head of Business, Finance and Pensions presented the report. He said that the strategy had been introduced in the context of the increasing complexity of regulations and the number of employers in the Fund. The Fund now had the power to charge employers for additional costs they imposed by poor administration or breach of regulations. The Administration Strategy was underpinned by an IT Strategy aimed at providing efficient and integrated digital services to employers and members. Responding to a question from a Member, he said that the Fund's officers offered employers staff training and encouraged Pensions staff to progress in their professional development. The Strategic Director referred to the section on Training and Development (agenda page 224) and suggested that this demonstrated a very proactive approach to training.

A Member commented that the Administration Strategy was a very comprehensive document.

The Chair said that the Board should receive a progress report on the Administration Strategy annually, including an indication of areas where there were problems, and information about the costs and benefits of the strategy.

RESOLVED to note the report and the issues raised with regard to the Board's future workplan.

30 AVON PENSION FUND WORK PLANS

The Head of Audit West presented the report. He said that this item had been included to provide to show the Board what the Fund was doing in order to provide a context.

RESOLVED to note the workplans and issues raised for the future work of the Board.

31 PENSION BOARD WORK PLAN

The Head of Audit West presented the report. He said that the draft plan in Appendix 1 was an attempt to set out the work of the Board for the next six months to one year.

The Chair said that it was important that the Board did not attempt to duplicate the work of the Committee. The Board should focus on the areas where it would add value. He hoped the Committee would provide feedback about whether the Board was adding value. The workplan would be a rolling programme, so should appear on each agenda.

RESOLVED to note the report and the work plan outlined in Appendix A.

32 DATE OF NEXT MEETING

25th February 2016.

The meeting ended at 4.28 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

List of recent Consultations / Surveys and Issues expected to affect Scheme Administration

Body Involved	Subject	Description	Relevant Date	APF response	Follow up
H M Treasury	Consultation on a Public Sector Exit Payment Cap	<ul style="list-style-type: none"> cap the total cost of all forms of exit payments available to individuals leaving employment to £95,000. apply the cap to all types of arrangement for determining exit payments. 	27/08/2015	Yes	<p>HM Treasury Response to consultation issued 16/09/2015</p> <p>Basically as per consultation</p>
H M Treasury	Strengthening the incentive to save: a consultation on pensions tax relief	To get views on how pension savings should be treated for tax relief	30/9/2015	Yes	No response expected before next budget
HM Treasury	March and Summer Budget Changes to HMRC Allowances	Introduction of restricted annual allowance for members earning over £150,000 and Lifetime allowance reduction to £1m		N/A	Subject to Finance Bill currently being processed through Parliament
The Pensions Regulator	Public service governance and administration survey 2015	To inform TPR where Administering authorities were with implementing Code of Practice 14	07/09/2015	Yes	N/A
Office of National Statistics	Occupation pension Scheme Survey	Analyse the extent to which employees in UK are covered by occupational pension schemes	30/10/2015	Yes	N/A
DCLG	Consultation on Best Value and staff transfer direction Order	<p>The government published guidance for Fair Deal on outsourcing from public Sector schemes excluding local government in Oct 2013</p> <p>DCLG are to set out how this will affect Best Value employers</p>	awaited		Minister is currently being briefed on this matter and consultation is expected shortly
Scheme Advisory Board	LGPS Fund benchmarking exercise 2015	a national exercise to benchmark the performance of all LGPS funds in England and Wales during late 2015 prior to a mandatory exercise linked to 2016 triennial valuations.	31/10/2015	Yes	Findings to be considered during Dec 2015 to submit recommendations to DCLG for 2016 Valuation process

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Scheme Board sub committee	Review of ill Health retirement IDRPs	Views requested from Scheme Employers	12/10/2015		Recommendations to be submitted to Scheme Advisory Board
LGA Pensions	The Markets in Financial Instruments Directive (MiFID II)	its impact on LGPS investments	03/01/2017	Yes	Report will be send to committee and all fund managers contacted