Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 23rd March, 2018, 2.00 pm

Bath and North East Somerset Councillors: Patrick Anketell-Jones (Vice-Chair, in the Chair), Shaun Stephenson-McGall, Lisa O'Brien and Rob Appleyard

Co-opted Voting Members: William Liew (HFE Employers), Shirley Marsh (Independent Member) and Paul Scott (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions)

Advisors: Steve Turner (Mercer), Julie Masci (Grant Thornton) and Michelle Burge (Grant Thornton)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical Manager)

60 ELECTION OF VICE-CHAIR

It was proposed by Cllr Lisa O'Brien and seconded by William Liew and **RESOLVED** that Cllr Patrick Anketell-Jones should be elected Vice-Chair to chair the meeting.

61 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

62 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr David Veale, Cllr Mary Blatchford, Cheryl Kirby, Cllr Steve Pearce, Cllr Toby Savage and Wendy Weston.

63 DECLARATIONS OF INTEREST

There were none.

64 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Shirley Marsh withdrew from the meeting.

The Head of Business, Finance and Pensions reminded Members that the two Independent Members on the Committee were appointed for a term of four years, and could serve a maximum of two terms. It had escaped notice that Shirley Marsh's first term had expired in June 2017; he invited the Committee to rectify this oversight retrospectively by confirming her appointment for a second term, thereby removing the need for an Independent Member recruitment process.

RESOLVED that the appointment of Shirley Marsh as an Independent Member of the Committee for a second term be confirmed.

65 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

66 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

Lisa O'Brien reported that she had attended the LGC Investment Seminar in Cheshire. It had been a useful and informative event, and she had been particularly interested in a workshop about impact investing. Denise Le Gal, Chair of Brunel Pension Partnership, had given a couple of presentations, which had impressed delegates. It was reassuring that BPP was in such good hands.

67 MINUTES: 8TH DECEMBER 2017

The Minutes of 8th December 2017 were approved as a correct record and signed by the Chair.

68 AUDIT PLAN 2016/17

Julie Masci (Engagement Lead) and Michelle Burge (Audit Manager) from Grant Thornton presented the External Audit Plan for the Avon Pension Fund for the year ending 31 March 2018.

The Head of Business, Finance and Pensions asked about the application of the going concern assumption to the Fund, noting that whereas commercial organisations have various revenue generating processes, the Fund's revenue consists mainly of contributions. He wondered to what extent the auditors will seek assurance about those contributions, which are paid by a great diversity of employers in the context of a shrinking financial base in the public sector. Ms Masci responded that contributions had been flagged up as an area of reasonably possible risk in the Audit Plan (Agenda page 19). If any employer had difficulties paying contributions, the Regulator should be notified. For the Fund cash is king; if the Fund's cash income appeared insufficient, the external auditors would be obliged to recognise that in their report.

The Vice-Chair asked about the inclusion of fraudulent transactions among the significant risks. Was this because this it was one of the likeliest risks or one of the costliest? Ms Masci replied that under auditing standards there is a rebuttable presumption that revenue may be misstated. The issue is the robustness of the income control environment. The external auditors would be very happy to be able to rebut the presumption.

A Member asked about whether the external auditors could use work done by Internal Audit. Ms Masci replied that auditing standards were quite specific about how the external auditors should conduct an audit. They would certainly enquire about work undertaken by Internal Audit relating to the Fund, and have regard to it, but they cannot directly rely on it and use it as a substitute for their own work.

A Member asked for a definition of Level 3 investments. Ms Masci replied that investments were classified as Level 1, 2, 3 according to how easy it was to assess and verify their value in accordance with the fair value hierarchy. Level 1 investments are those for which there are directly observable market prices, Level 2 investments are those for which there is some market information, though there are other factors that have to be taken into account, and Level 3 are those for which there are no observable market prices. The Investment Manager said that examples of Level 3 investments in the Fund would be infrastructure and hedge funds. Quite a few of the pooled investment vehicles are Level 2. Equity and bonds are Level 1. The Fund's Level 3 investments are worth about £1.5bn and by default are relatively illiquid.

A Member asked whether the auditors would be doing anything different or additional because of pooling. Ms Masci replied that they would be looking at governance costs, but there would be no impact this year on their approach to the audit of investment. There would probably be an impact in 2018/19 after the transitioning of assets to Brunel. The Investment Manager said that work was being done with CIPFA and LGA to develop a national framework for reporting the costs and savings from pooling.

RESOLVED to note the Audit Plan for the accounts for the year ended 31 March 2018.

69 TPR COMPLIANCE - MEMBER ADDRESS RECTIFICATION

The Pensions Manager presented the report.

The Vice-Chair asked about the status type "frozen historic" in the table on agenda page 30, noting that these formed about a quarter of the total. The Pensions Manager explained these were historic leavers for whom there was incomplete data. At one time they had numbered about 2,100, but targeted work to clear cases had reduced the number to 670. There were no contact details for these members at all. Many of them were due refunds, so it was hoped that their addresses could be traced so that the refunds could be paid.

A Member confirmed that it was not unusual for a pension fund to have such a high number of missing addresses for deferred members. She asked if there was any information about how successful the tracing exercise would be. The Pensions Manager replied that he did not have this to hand at the moment, though he was optimistic that a high proportion of the missing members would be traced. The Head of Business, Finance and Pensions said that missing members tended to contact the Fund when they were about to retire and wanted to claim their pensions. He thought this was a pragmatic way of handling the problem of missing addresses. However, many of the deferred members were still quite young, so their pension was not uppermost in their minds. He did wonder how much success there would be in tracing missing members and to what extent contact with them would be maintained in future, given that there were some 20,000 deferred members. When the information was provided to the Fund by the tracing agencies, it would be examined to see how many potential best matches there were, and then efforts would be made to try to get them accustomed to communicating with the Fund electronically. He thought the tracing exercise was a bit of a stab in the dark, but he hoped there would be a significant success rate.

A Member asked what “undecided leavers” were. The Pensions Manager explained that when members left one of the Fund’s employers with no LGPS entitlement, under current legislation they now had five years to decide whether they wanted a refund of their contributions or a transfer out. It was now year 4 since the legislation had come into force and the “undecided leavers” were those who had not informed the Fund of which option they wished to take. After 5 years refunds have to be paid, and a suspense account for these refunds will have to be set up.

A Member said that in the case of pensioners and dependants, a pension was being paid to them, so, on the face of it, there would be seem to be a channel by which they could be contacted. The Pensions Manager explained that these were cases where the payment of pensions had actually been suspended because of a lack of response from the payee. These cases were subject to regularly mortality screening.

A Member asked whether other LGPS schemes had similar levels of missing addresses. The Head of Business, Finance and Pensions said that the Avon Fund was totally transparent in its reporting, whereas he got the feeling when he read committee papers of other funds that they tended to report the workable caseload rather than the complete caseload, and therefore comparisons tended to be misleading.

A Member asked whether the £25,000 cost of the project would be borne by the Fund, rather than the employers who not supplied complete data. The Head of Business, Finance and Pensions replied that it would be borne by the Fund; the Administration Strategy gave the Fund the power to charge employers for additional administration work they caused, but this was not being considered at present.

A Member noted that the aim was to complete the first stages of the project by 31st March; as it was now the 23rd March, the project had presumably already commenced. The Pensions Manager confirmed that this was the case.

A Member asked whether the lack of contact details was a key driver of the deteriorating percentage of workable cases. The Head of Business, Finance and Pensions said that it was not; in general cases were not progressing because a decision was awaited from the scheme member.

RESOLVED to approve the member address rectification proposal.

70 BUDGET AND SERVICE PLAN 2018/21

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

He said that a number of things had impacted on resources and workload, including the Brunel project on the investment side, the large number of schools converting to academies and the increase in the number of employers. The range of work is huge, and the Pension Board had quite rightly said that we should be putting more resources in to deal with it. However, it is important that resources are properly targeted, so resources have been allocated to undertake a number of specific projects. These would come from a mix of allocating existing and employing additional resources, together with some reorganisation of functions. It was proposed that the budget should be increased from £2.7m to £2.9m. Additional resources would be allocated to the actuarial team, particularly for the covenant assessment work, and to the investment team. There was a two-year transition period for pooling, and given their already high work load it would be prudent to add additional resource to the investment team now, rather than wait for a full review. On the administration side there were a number of specific projects, as detailed in Appendix 5. IConnect would be rolled out to all employers to help them provide the Fund the information it required. Software suppliers have been improving products, and with telephone, online and Skype training it would no longer be necessary to visit all employers to give on-site training. This would require some investment. 55% of data is now provided electronically. The revised Administration Strategy, which would be presented to the Committee in September, would play an important part in promoting more effective working.

The Vice-Chair asked whether there was adequate support for the Fund's IT systems. The Head of Business, Finance and Pensions replied that there were very few suppliers providing software for LGPS funds. The Fund probably used more products from Heywood than other LGPS funds. Heywood supplies the member portal and the employer portal. He was quite confident that a system could be built that would efficiently and economically serve members and employers. The alternative would be to invest significantly in an alternative system, as one fund had unsuccessfully tried to do before reverting to their previous supplier.

A Member commented that the academies issue was not going to get any easier, and wondered whether a dedicated person or other resource might be provided to deal with them. The Head of Business, Finance and Pensions responded that one way forward might be to acknowledge that the academies would not be able to cope with pensions work and for the Fund to do it for them and charge them for it. However, this raised issues about the Fund's independence and how it could avoid conflicts of interest.

A Member noted that the member address rectification project had been outsourced and asked whether there was potential for outsourcing other work. The Head of Business, Finance and Pensions replied that the member address project was a small discrete piece of work; outsourcing major functions was more problematic. In the first place there were few suppliers in the market place, so there was limited scope for major outsourcing. Some funds had shared services, like Devon and Somerset, and on the whole he thought this would be a better option. A Member said that he believed outsourcing would be a serious error in the light of the recent problems experienced by major providers of outsourced services. In addition, outsourcing would lead to a loss of control of administration by the Fund. There was sufficient turbulence to the Fund caused by the establishment of Brunel, so it would be very unwise to add to it by outsourcing any administrative functions.

The Investments Manager said that because of the costs of Brunel, there would be no savings on the investment side this year, but work was being done nationally on how to analyse and disclose the costs of pooling. The Head of Business, Finance and Pensions said that an increase in investment managers' fees had to be expected in a buoyant market.

A Member referred to the Budget and Cash Flow Forecast on agenda page 61, and noted that the table had a line for investment income received as cash and one for divestments, and a statement that one of the sources for net cash requirements would be divestments. This made him wonder how the gap between the Fund's income and the amount paid out in pensions would ever be closed. The Investments Manager pointed out that deficit recovery was another source of income. A significant portion of deficit contributions from employers were received as lump sums in year 1 and were invested. The deficit contributions would make the Fund cash neutral over the valuation period. Cash income could be received from the low-carbon portfolio. Income is also received from other investment manager mandates, but this is reinvested by the managers. Marginal divestment would be required from time to time to maintain cash flow.

A Member asked about the impact of the General Data Protection Regulation. The Head of Business, Finance and Pensions said that there was a cross-Council project on this. It was a requirement that there should be a central register recording all information transfers and how they are controlled. Arrangements were supposed to be in place by 25th May, but few organisations will achieve this deadline. The important thing is that there should be a project plan; this will be presented to the Pension Board in May or July and will come to the Committee thereafter.

RESOLVED to approve the 3-Year Service Plan and Budget for 2018-21 for the Avon Pension Fund.

71 UPDATE ON POOLING INCLUDING MAPPING AND ASSET TRANSITION PLAN

The Investment Manager presented the report.

She advised the Committee that Brunel PP had received its FCA authorisation the previous week and was therefore now able to provide investment services to the member funds. APF had signed a service agreement with Brunel.

An updated version of Exempt Appendix 5a was circulated to Members.

The Committee, having been satisfied that the public interest would be better serviced by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting for the remainder of this item, and that the reporting of this part of the meeting should be prevented in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

After discussion it was **RESOLVED:**

1. To note the progress made on pooling of assets;

2. To agree the mapping of Avon's passive and actively managed equity and bond assets to Brunel portfolios;

3. To agree the mapping of non-quoted assets subject to finalisation of the portfolio specifications;

4. To agree to delegate the confirmation of allocation and value of assets to be transferred to each Brunel portfolio to Officers;

5. To note the project plan for the transition of assets.

72 TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) presented the report. He said that the only change proposed was the removal of the requirement for counterparties to have a Fitch support rating of no less than 3. The removal of this requirement brought the Fund's policy more in line with the Council's and is in accordance with the advice of the Council's Treasury Management Advisers, Arlingclose. The Committee was not being asked to approve the list of counterparties in Appendix 2, which was only given as an example of counterparties that currently meet the proposed criteria.

In response to a question from a Member, he reminded the Committee that in December 2017 it had had agreed an amendment to the Policy originally approved in March 2017 in respect of the exclusion of Eurozone money market funds.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1.

73 REPORT ON INVESTMENT PANEL ACTIVITY

The Investment Manager presented the report.

She advised that having acquired FCA accreditation the previous week Brunel is now able to conduct manager selections on behalf of the Fund and have started on this.

The Vice-Chair asked about "Long-lease Property" (section 4.2 of the report). He wondered how long was "long", and whether this was commercial or residential property. Mr Turner explained that it was UK commercial property comprising a mixture of retail and office property, and that "long" meant 20-25 years+.

RESOLVED:

1. To note the decisions as summarised in paragraphs 4.2, 4.3 and 4.4.

2. To note the minutes of the Investment Panel meeting on 21 February 2018 at Appendix 1 and Exempt Appendix 2.

74 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER

Mr Turner presented the Mercer investment report. He noted that volatility had returned to markets, in contrast to the previous year when there was very little volatility. Equity markets had corrected by 10% in the first week of February and then bounced back quite strongly. There had been further volatility in the past few weeks.

The two main sources of volatility were rising interest rates and the US imposition of trade tariffs. It was fortunate that the Fund now had an equity protection strategy in place.

He commented on individual manager performance.

[Councillor Appleyard left the meeting.]

The Investment Manager reported that the contract with Manifest, who monitor external managers voting activity on behalf of the Fund, had been terminated, due to corporate issues. In future LAPFF Alerts would provide notifications of issues coming up at AGMs, and Fund officers would monitor external managers voting. The annual voting report to the Committee will not be provided in 2018.

Before considering Exempt Appendix 3 the Committee, having been satisfied that the public interest would be better serviced by not disclosing relevant information, **RESOLVED** that the public should be excluded from the meeting for the remainder of this item, and that the reporting of this part of the meeting should be prevented in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

RESOLVED:

1. To note the information set out in the report.

2. To note the LAPFF Quarterly Engagement Report at Appendix 4.

75 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER AND RISK REGISTER

The Pensions Manager presented the report.

He advised that the number of employers in the Fund had increased by 65 in the quarter, the majority of these being academy conversions and the associated creation of Transferee Admitted Bodies following the outsourcing of catering and cleaning contracts, and that a further 69 new employers were in the pipeline.

There had been a marginal improvement in performance over the quarter, but many Service Level Agreement Key Performance Indicators remained below target. However, statutory legal requirements for which performance information is available are being satisfied. Officers are developing a further suite of reports comparing performance against SLA targets with performance against legal requirements, which should be available at the next meeting of the Committee. The project to clear the backlog of early leaver cases had been completed.

Officers had developed a report to measure compliance with TPR requirements in relation to common and specific data. Errors by and large relate to active members. Employers are notified about these by means of a quarterly data exception report and there are follow up calls.

The increasing of electronic data communication by employers will have a significant favourable impact on workload. Leaver forms will no longer be required for all types of leaver, as the majority of notifications will refer to deferred members. The use of electronic data should lead to a great increase in accuracy, as information can be provided to members directly from the employer's payroll data.

A Member asked whether there was any estimate of the final number of employers in the Fund. The Head of Business, Finance and Pensions replied that he would estimate that there would be 500 employers by 2020. There was evidence of consolidation of the academy support service providers and of the merging of academies into multi-academy trusts, which would help keep the number of individual employers in check.

RESOLVED to note:

1. membership data, Fund and Employer performance for the 3 months to 31st December 2017;

2. progress and reviews of the TPR Data Improvement Plan.

76 BUDGET AND CASHFLOW MONITORING 2017/18

The Finance and Systems Manager (Pensions) presented the report.

RESOLVED to note:

1. the administration and management expenditure incurred for 10 months to 31 December 2018;

2. the Cash Flow Forecast to 31 January 2018.

77 INTERNAL AUDIT UPDATE

The Pensions Manager presented the report.

A Member commented that it was extremely reassuring that governance standards in the Fund were so high despite the very heavy workload.

RESOLVED to note the report and outcomes from Internal Audit work.

78 UPDATE ON LEGISLATION

The Technical Manager presented the report.

RESOLVED to note the current position regarding the developments that could affect administration of the Fund.

79 COMMITTEE DELEGATIONS

The Investment Manager presented the report. She explained that it was proposed to amend the Terms of Reference of the Committee and Investment Panel to allow implementation decisions to be made in a timely manner during the transition of assets to Brunel, without being limited by the Investment Panel meeting cycle.

After discussion it was agreed to modify the amendment to the Terms of Reference suggested in 4.6 of the report by limiting the delegations to Officers to investments in the Brunel pool, and not to delete the delegations to the Panel as recommended by 4.7, but to limit them to investments outside the Brunel pool.

RESOLVED to amend the Terms of Reference as follows:

1. To insert into the delegations to Officers:

   "2. Approve investments in emerging opportunities within strategic allocations, to be managed within Brunel pool, in consultation with the Investment Panel.

   "3. Implement investment management arrangements in line with the strategic policy, including the setting of mandate parameters and the appointment of managers to be managed within Brunel pool, in consultation with the Investment Panel."

2. To amend paragraphs 4 and 5 of the delegations to the Panel as follows:

   "4. Approve and monitor tactical positions within strategic allocation ranges that are not managed within Brunel pool.

   "5. Approve investments in emerging opportunities within strategic ranges that are not managed within Brunel pool."

80 WORKPLANS

The Investment Manager presented the report.

She said that she would be consulting Members shortly about dates for a half-day workshop with the actuary on the actuarial valuation.

A Member suggested that there should be contingency planning for the elections in the Unitary Authorities, including inductions for newly-elected members.

RESOLVED to note the workplans and training programme for the relevant periods.

The meeting ended at 4.27 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services