BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 25th February, 2016

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer 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 Dave Mehew (Audit Team Leader)

33 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

34 APOLOGIES FOR ABSENCE

Apologies were received from Steve Harman (Employer Representative) and Tom Renhard (Member Representative).

35 DECLARATIONS OF INTEREST

There were none.

36 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Mark King as an observer to the meeting.

37 MINUTES: 5 NOVEMBER 2015

These were approved as a correct record and signed by the Chair.

Matters Arising

Minute 19, page 7. The Chair said that training on and consideration of the 2016 valuation would be included in the 2016-17 Board work programme.

Minute 22, top of agenda page 9: *"the Board should be up to full strength by the time of the next meeting."* The Head of Audit West said that an application was currently under consideration and that it was hoped that a decision could be made within the next few weeks.

Minute 24, page 10. The Chair said that training and discussion on the respective LGPS governance roles of BANES Council, Pensions Committee, Investment Panel, Local Pension Board, and any new bodies arising from LGPS fund asset pooling would be included in the 2016-17 Board work programme.

Minute 28, agenda page 13, third paragraph: separation of B&NES and Avon Pension Fund Accounts and clarification that the Fund's next and accounts would be prepared in accordance with and externally audited against CIPFA LGPS accounting disclosure guidance. The Chair said that he had discussed this with the Strategic Director of Resources and the Head of Audit West and that information about it would be presented to the next meeting of the Board.

38 ITEMS FROM THE PUBLIC

There were none.

39 ITEMS FROM MEMBERS

There were none.

40 CHAIRMAN'S UPDATE

The Chair drew attention to the following:

- Pooling and the new LGPS investment regulations were occupying a huge amount of the time of LGPS funds.

- The Secretary of State had appointed a Chair to the Local Government Pension Scheme Advisory Board to replace the interim Chair. He is Roger Phillips a member and former Chair of Herefordshire Council, who has also played a significant role in the LGA. It was to be expected that this would lead to an increase in the activity and output of the Advisory Board.

- The LGPS Scheme Advisory Board had published on their website at http://www.lgpsboard.org/index.php/about-the-board/board-guidance an opinion of James Goudie QC on the legal position of local pension boards. In Mr Goudie's view local pension board members are not automatically covered by council indemnity insurance.

He added that other local pension boards with which he was involved were at more or less at the same stage as the Avon Board. All were grappling with defining their role and were focussing on administrative compliance and audit reports. He felt that the jury was out on the long-term future of local pension boards, but that was for the Government to decide.

RESOLVED To note the report and that officers and the Chair would report back on the implications of the legal advice referred to above.

41 MINUTES OF AVON PENSION FUND COMMITTEE 11TH DECEMBER 2015 AND 3RD FEBRUARY 2016

The Head of Business, Finance and Pensions introduced this item. He said that the key issue discussed at these two meetings was one that all LGPS funds were currently grappling with: the Government's requirement that funds should establish investment pools. The Government had issued criteria for pools, and had consulted on proposed changes to the investment regulations to allow the pooling of investments and investment in asset classes that were currently restricted. Criteria for pools included a minimum size of £25bn, an effective governance structure and the ability to invest in infrastructure. The Government will acquire the power to direct funds to invest in infrastructure, which raises the dilemma of how Government directions might be reconciled with the investment strategies set by local funds; clarification about this is being sought at the national level. All the pools were also grappling with the problem of how to demonstrate a capacity to invest in infrastructure. It was not clear what kind of infrastructure the Government wanted funds to invest in.

There were differences between pooling groups as to whether they were regional or and in the size of their assets. The value of all the LGPS funds in Wales only amounted to £12bn. Some funds had not yet joined pools. Project Brunel had been working with PwC to develop its proposals and had made its initial submission by the deadline of 19th February. The Government required a clear separation between the monitoring of the investment pool and the setting of investment strategy and policy. The governance structure proposed for Project Brunel was a joint committee. The final proposal had to be submitted by July; this had to give an estimate of cost savings from pooling and indicate how the transition to pooling was to be implemented. Because of the amount of illiquid assets held by funds, the transition could take up to ten years. Project Brunel has to face the challenge of reducing the number of investment manager mandates from over a hundred down to twenty or thirty while still satisfying the strategic investment requirements of the individual funds in the pool. It was thought that the cost savings for the Avon Fund could be about £2m, but this was uncertain, because circumstances would have changed by the time that savings could be accurately quantified. He said that the experience of dealing with the pooling proposals had been an uncomfortable one for members of the Avon Pension Fund Committee, who were sceptical about the savings that could be achieved and were concerned that the Government's timetable restricted their involvement in the process.

In reply to questions from Members he said;

- The aim was to pool all assets, but this was probably not achievable. Some funds had investments in asset classes that other funds did not. It might be that £18bn of the £23bn total assets of Project Brunel would be pooled.

- The Committee would no longer select investment managers, but would retain responsibility for the setting of investment strategy and policy. The investment strategy flows from the valuation, and determines the level of investment returns that are required. The Committee will choose the asset classes that it considers will deliver those returns at a certain level of risk.

A Member asked about the role of the Board in relation to pooling. The Chair noted that the Government had launched this initiative after the establishment of the Local Pension Boards, and that there was nothing about pooling in the relevant Regulations or Guidance. He believed that the Board should approach the issue by reminding itself of its fundamental duties, which were to secure the compliance of administering authorities with Regulations and The Pension's Regulator's Guidance and to ensure efficient and effective governance and administration. The Board's only role in relation to pooling was to consider whether there was effective governance and administration of it by the Avon Fund. The Board should form an opinion on whether the Committee had considered the relevant issues, and, at an appropriate time in the future, on whether the governance structure for Project Brunel complied with the Regulations in force at that time. The Board could receive an update at its meeting in May, but could only begin serious scrutiny after the final submission in July.

The Head of Business, Finance and Pensions drew attention to another issue facing all funds: the EU's Markets in Financial Instruments Directive (MIFID II). This was concerned with the classification of different types of investors and required investors to be properly qualified and/or experienced. LGPS funds would be classified as retail investors, which could pose the problems identified in Minute 46 of the 11th December meeting. The implementation of the Directive had been deferred for a year.

RESOLVED

(i) To note the minutes of the meetings of the Avon Pension Fund Committee held on 11th December 2015 and 3rd February 2015.

(ii) To record that the Board is satisfied that the Committee followed a rigorous process in relation to the pooling proposals.

42 MINUTES OF AVON PENSION FUND COMMITTEE INVESTMENT PANEL 18TH NOVEMBER 2015

RESOLVED to note the minutes of the Avon Pension Fund Committee Investment Panel of the 18th March 2015.

43 LOCAL GOVERNMENT PENSION FUND UPDATES AND DEVELOPMENTS

The Head of Business, Finance and Pensions presented the report. He drew attention to proposals for regulations on a Public Sector Exit Cap and on recovery of Public Sector exit payments. It was not certain how these were to be applied in practice and the Fund had responded to the Government that the proposals were not very robust. In response to a question from a Member he explained that these regulations would apply to any Public Sector employment. The Fund would be responsible for checking whether a new employee had been previously employed in the Public Sector and was subject to the regulations.

RESOLVED to note the report and latest developments.

44 BENCHMARKING UPDATE

The Chair introduced this item by reminding Members that benchmarking was an important tool for assessing the efficiency and effectiveness of the Avon Fund. The Board needed to understand how the Avon Fund compared with others.

The Head of Business, Finance and Pensions presented the report. He emphasised that the Avon Fund had a lower administration cost per member than other similar funds and lower than the average. This was to be expected, as the Fund was larger than average and should be achieving economies of scale. The Fund spent more than average on communications, but this was a conscious policy choice. Payroll costs were also higher because the Fund had decided to separate its payroll from that of the Council. Accommodation costs were also a little higher. The Fund was below average in qualified staff; in the past few years there had been a trend in staff joining, being trained and then leaving for more lucrative employment. Salaries were not competitive with the private sector, which was a problem across the public sector.

The Chair noted that there were more deferred than active members, which was significant for the future of the Fund. The Head of Business, Finance and Pensions confirmed that the Fund was now in negative cash flow. A Member noted that there were also more leavers than joiners.

The Chair asked whether the Fund was protected against austerity or economy measures implemented by the Council. The Head of Business, Finance and Pensions said that the Fund determined its own expenditure and was not subject to external controls.

The Chair said that the information provided reflected well on the Fund at present and that the Board should focus on trends in the Fund's benchmarking results. He informed Members of a benchmarking exercise on public service pensions schemes by The Pensions Regulator, which he would arrange to be copied to Members. TPR would repeat the survey in March or April this year, focussing on how Pension Boards had been scrutinising communication by funds. The Local Government Pension Scheme Advisory Board had also done some benchmarking around key performance indicators, which might be published this year. There would also be benchmarking results coming from the valuation and league tables relating to investment returns. The Board should look at some form of benchmarking information at each meeting.

RESOLVED to note the report and plans for future benchmarking of the LGPS by TPR and the National Scheme Advisory Board.

45 COMPLIANCE REPORT

The Acting Pensions Manager presented the report. He said this was a combined report containing performance indicators and information required by The Pensions Regulator. He drew attention to paragraph 6.1 and said that the figure for outstanding cases at 31st January should be 4,500 rather than the 6234 cases reported. He circulated updates to Appendices 2 and 3A. He emphasised the impact on workload of the increase in part-time employees and of the number of employers in the Fund. He said that the low figure of 54% of leaver cases completed on target reported in Appendix 3 was due to the unusually high volume.

The Head of Business, Finance and Pensions said that ongoing changes in the public sector had a direct impact on the work of Pensions Administration. One example was the conversion of schools to Academies, which was one driver behind the increase of employers in the Fund. Smaller employers did not necessarily understand their pensions obligations and required training and guidance from Pensions staff. Another factor increasing pressure on Pensions Administration was staff concerns about their job security, which was leading to an increase in pension enquiries.

Members discussed differences between the Fund's performance targets and those set by The Pensions Regulator and whether the Fund should bring its targets in line with those of the Regulator by lowering them where the Regulator's targets were lower and raising them where the Regulator's were higher.

The Chair said that it was important for the Board to understand its role in relation to the monitoring of Fund performance against internal standards and regulatory compliance targets.The Committee was reviewing the former in depth at each of its meetings, so where could the Board add value? It seemed odd that the Board was reviewing the same information as the Committee. Since the duty of the Board was to ensure regulatory compliance, he suggested that it needed to focus more on this and exceptions and, if there were problems, to confirm that there were action plans and timetables for addressing them, and to monitor progress with those action plans. There were many areas where the Fund was close to achieving the regulatory targets; the Board might focus on those areas it considered regulatory compliance priorities and encourage actions to achieve the regulatory targets. In this way the Board could add extra help and support. The Board should view performance from a higher-level exception reporting basis. The Board should revisit this issue at the next meeting.

RESOLVED:

1. To note the Performance Indicators and Customer Satisfaction feedback for 4 months to 31 January 2016.

2. Progress on the Data Improvement Plan.

3. The Board would consider its regulatory compliance reporting at a future meeting.

46 RISK REGISTER AND INTERNAL AUDIT UPDATE

The Acting Pensions Manager presented the report.

The Head of Finance, Business and Pensions said that many risks could not be eliminated, but could be mitigated. He drew attention to the management of the different kinds of investment risk including the management of long-term risks through the investment strategy. In its efforts to reduce risk the Committee engaged with investment managers and was supported by investment advisers.

A Member asked how the Committee engaged with the risk register. The Head of Business, Finance and Pensions replied that a report including the top ten risks was considered by the Committee at each quarterly meeting.

The Chair said that the Board could be satisfied that the Fund had a risk management system in place: there was a risk register, risk monitoring, risk reporting and mitigating actions. He suggested that the Board, in accordance with its duty to ensure compliance, should focus on regulatory compliance risks and governance risks. He noted that some LGPS funds do not have a risk register.

After discussion Members agreed to focus on the top 10 risks as perceived by the Committee and risks relating to regulatory compliance, governance and communications.

The Head of Audit West commented on Internal Audit work on the Avon Pension Fund. He drew attention to the summary of work in Appendix 3. In broad terms about 30 days of Internal Audit work a year were dedicated to the Fund, which allowed 1-3 areas to be reviewed each year, depending on the nature and scale of the reviews. Appendix 4 contained the full draft report of the review of contributions and member records finished in February 2016. The Audit Team Leader commented on the report. The Head of Audit West noted that the assessment for the control framework was 4, "good". Five issues were detailed in the action plan. The Chair said that the Board would want to check that these actions had been implemented within the specified timescale and requested that an update be provided at an appropriate future meeting.

The Head of Audit West explained that there was no separate Internal Audit plan for the Pension Fund. Work scheduled in relation to the Fund was included in the Council's audit plan. Work planned for the future included the remaining aspects of the CIPFA 2014 pensions governance review (there were about 3 or 4 modules to be completed) and a review of payroll. The Chair asked why payroll was being reviewed so soon after the last review in 2014. The Head of Audit West replied that payroll was normally reviewed every three years.

The Chair suggested that one area that should be reviewed was the accuracy of benefit calculations. The Head of Audit West responded that this had been reviewed previously.

The Chair requested that the reports of the External Auditor should be included on the next agenda.

RESOLVED to note

1. The Internal Audit report and that a report on the completion of the recommended and agreed actions would come to a future meeting.

2. The Risk Register.

3. The Audit Plan for 2016/17.

4. The External Audit Plan would be considered at the next meeting.

47 BREACHES PROCEDURE

The Head of Business, Finance and Pensions presented the report. He said that the policy had been redrafted in the light of the comments made by the Board at the previous meeting. One of the issues raised by the Board had been materiality.

He said that it was inevitable that with 250 employers in the Fund something would go wrong from time to time through inadvertence or staff turnover. The initial response would be to help employers to fulfil their obligations to the Fund by providing advice and training. A tougher approach would be adopted if breaches were repeated.

A Member suggested that under “Material Breaches by the Admin Authority” the sentence “the investigation will be carried out by internal audit section or referred to police as required” should be amended to indicate that the matter would only be referred to the police if evidence had come to light as a result of the audit investigation.

The Chair noted that procedure provided that, in the case of breaches by employers and the administering authority, the Pensions Regulator should be notified as soon as reasonably practicable, whereas TPR guidance indicated that in the case of serious breaches TPR should be notified within one month at the latest. Serious fraud had to be reported immediately. He requested that the procedure be amended accordingly. He also requested that a paragraph on how material significance was to be assessed as per the TPR guidance be included.

The Chair suggested that the Committee might have training about breaches before they were asked to approve the procedure.

RESOLVED to recommend the Breaches Procedure for Avon Pension Fund (with the amendments recommended by the Board) to the Pensions Committee for approval.

48 PENSION BOARD BUDGET

The Head of Audit West presented the report.

The Chair said that when the Board published its first annual report there would be actual costs available that could be used in setting budgets in future.

RESOLVED to recommend the proposed budget for approval by the Avon Pension Fund.

49 TRAINING UPDATE

The Head of Audit West presented the report.

Members reported the training they had undertaken since the last meeting.

The Chair was pleased to note Members’ progress with training.

The Chair said that Members training needed to be recorded in a systematic way, as it had to be recorded and disclosed in the Board’s statutory annual report. He suggested that there should be a template for recording Members’ training in 2015-16 and beyond and that Members’ training records should be held centrally by BANES officers.

Members requested that consideration be given for training on the following subjects:

- the meaning of “proper advice” by investment managerinvestment decision making
- how investment managers are chosen
- academies
- property

The Chair suggested it was more appropriate that the Members should receive training on the valuation and the governance arrangements for pooling. He also requested that Members should complete their training needs self-assessment templates and training log and that the results be collated before the May meeting of the Board.

RESOLVED:

1. To note the report and comments of Members on future training requests.

2. To complete the training needs self-assessment and annual training log for collation and presentation to the next meeting.

50 WORKPLAN UPDATE

The Head of Audit West presented the report.

The Chair noted that the Statement of Investment Principles (page 176) was to be replaced with a new type of statutory statement and so it made more sense for the Board to look at the new requirement later in 2016-17. He also felt it would be appropriate for the Board to begin to consider at the May meeting topics that might go into the Board’s annual report.

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

51 CHAIRMAN'S REVIEW OF MEETING

The Chair said that he was extremely pleased with the progress achieved by the Board to date. Today’s meeting had generated a very full agenda for the next meeting. It was agreed there was no other business and that the next meeting of the Board would be 10:30am on 19th May.

The meeting ended at 12.59 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services