BATH AND NORTH EAST SOMERSET

PENSION BOARD

Wednesday, 2nd November, 2016

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Mark King (Member Representative), Tom Renhard (Member Representative) and Tony Whitlock (Employer Representative)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Jeff Wring (Head of Audit West) and Geoff Cleak (Pensions Benefits Manager)

87 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

88 APOLOGIES FOR ABSENCE

Apologies were received from Steve Harman (Employer Representative) and David Yorath (Member Representative).

89 DECLARATIONS OF INTEREST

There were none.

90 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Councillor David Veale, Chairman of the Avon Pension Fund Committee, as an observer of the meeting.

The Chair reminded Members that the purpose of the Board was to assist the Avon Pension fund to comply with the LGPS Regulations and the requirements of The Pensions Regulator.

91 ITEMS FROM THE PUBLIC

There were none.

92 ITEMS FROM MEMBERS

There were none.

93 MINUTES OF THE MEETING OF THE 27TH JULY 2016

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

94 AVON PENSION FUND COMMITTEE DRAFT MINUTES 23RD SEPTEMBER 2016

RESOLVED to note the draft minutes of the meeting of the Avon Pension Fund Committee of 23rd September 2016.

95 AVON PENSION FUND COMMITTEE INVESTMENT PANEL MINUTES 5TH SEPTEMBER 2016

RESOLVED to note the draft minutes of the meeting of the Avon Pension Fund Committee of 5th September 2016.

96 LGPS UPDATES AND DEVELOPMENTS

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

The Chair asked why in Appendix 2 (The Pensions Regulator Requirements under Code of Practice) under Annex A the APF compliance for “any specific roles and responsibilities of individual Pension Board members” was indicated as “not applicable”. Officers responded that evidently the Board had a Chair and Employer and Member Representatives, but it was not clear if TPR meant this or something else by “specific roles and responsibilities”. The Chair suggested this should be clarified with them, so that if possible the Fund could demonstrate 100% compliance with all requirements.

The Head of Business, Finance and Pensions commented on State Street’s Local Authority Pension Funds Annual League Tables (Appendix 3). He said that it should be remembered that funds had widely differing investment mandates and structures and the tables only gave a very broad indication of their comparative performance. That understood, the ranking of the Avon Fund (equal 49th) appeared quite good. He said that the Fund’s investment performance had been very good over the last ten years or so and had exceeded expectations. However, investment performance was only one half of the equation; the liabilities were the other half, and the Fund was taking steps to cap these in the lead up to the next valuation.

The Chair noted that the Avon Fund had made a negative return of -0.2% in the latest year. A Member noted the varying performance of other funds in Project Brunel: for example the Environment Agency and Dorset ranked higher. The Chair said that as State Street WM tables had been compiled for many years, a time analysis of the Avon Fund overall fund performance relative to other Brunel funds prior to asset pooling would be useful.

The Head of Business, Finance and Pensions commented on Appendix 1 (Summary of Consultations and Surveys):

- Members were asked to note that the revised Investment Regulations, which provide the legal basis for pooling, had come into effect on 1st November. The Regulations conferred intervention powers on the Secretary of State, though it was not clear by what process these would be exercised or what would trigger them.

- The Mayoral Combined Authority, comprising B&NES, Bristol and South Gloucestershire, will be set up. The details of how pensions’ liabilities for the Authority will be shared need to be worked out.

- The Academies Review is ongoing. At present different funds are dealing with Academies in slightly different ways. One issue is whether the employer is the

Academy or the Multi Academy Trust (MAT), if there is one. Some funds treat a MAT as the employer and aggregate liabilities and contribution rates for all schools in it, others keep individual Academies in the MAT separate. An option being considered is for all Academies to be allocated to a single LGPS fund. The Review should be completed by the end of the year.

The Chair noted that the Investment Regulations require that the administering authority must “consult such persons as it considers appropriate” as to the proposed contents of its investment strategy statement (ISS) before issuing it by no later than 1st April 2017, and asked who the Fund would consult and how it would do it. The Head of Business, Finance and Pensions said that the Fund would produce an ISS and would consult on it. The Chair said that he was aware from other funds that there was considerable interest in the new investment strategy because of pooling, and advised that as there were only four months to carry out a consultation, the Fund should produce a consultation plan quickly; the Board had a requirement to check that the Fund was consulting on the ISS. He also asked Members to note that in accordance with the Investment Regulations the Secretary of State would consult the Pensions Board before exercising his intervention powers.

The Chair noted that he and Members who had attended TPR training courses were receiving emails from TPR asking whether the Board was complying with particular requirements, or asking for responses to surveys. He advised Members that such emails should be forwarded to the Head of Audit West, who would co-ordinate the Board’s response.

RESOLVED to note the report and latest developments.

97 PROJECT BRUNEL UPDATE

The Chair reminded Members that the Board had no regulatory role in relation to Project Brunel, but that its duty to advise the Avon Pension Fund on its efficiency and effectiveness did give the Board a role in monitoring the Fund’s involvement in the Project.

The Head of Business, Finance and Pensions updated the Board on the progress of Project Brunel and responded to questions from Members. A copy of his PowerPoint slides is attached to these minutes as Appendix 1.

He said that the origin of pooling went back to Government consultations in 2013 about the cost effectiveness of funds. There had been discussion about merging funds and about whether funds should be required to invest only in passive portfolios. However, the Government had not pursued these options. The Government had eventually opted for pooling and a requirement that funds should increase their ability to invest in infrastructure. Recently, the Government seems to have given the infrastructure investment criterion a lower priority. Some funds have challenged the idea of pooling, but the Government is not going back on this. Work on Project Brunel, which now comprises 10 funds, began in 2015. It was, and probably still remains, the most advanced of any of the pools. Early on it was agreed that the best form of governance would be a joint committee, under which certain functions were centralised, but with much remaining the same as at present, but the game was changed when DCLG said that the pool would have to be FCA-regulated. This required the establishment of a company to undertake the operations of the pool. The current estimate of net cost savings to the Project Brunel funds from pooling was up to £60m a year after a spike in costs during the transition period ending in 2023/24. These savings might not seem very great in relation to the size of the pool. This presented a challenge to the S151 Officers of the various authorities to demonstrate value for money.

Q: what is the payback period for transition costs?
A: this differs for every fund, but is in the range of 2024-2030. In the case of Avon it is 2022-24.

Q: is there a danger that some funds will not achieve the statutory local authority payback period?
A: yes, this being discussed with the Secretary of State.

Q: is there scope for improving the transparency of transaction costs?
A: work is being done on projecting transaction costs and tax liabilities. The Government will be asked to consider tax relief for funds, at least during the transition period, since they are incurring additional costs solely because of the Government's requirements. However, it is unlikely the Government will grant this.

He said that at present the 10 funds in Project Brunel had about 170 investment mandates, which would be reduced to about 22 categories through which the funds would be able to pursue their individual investment strategies. The Environment Agency and the Avon Fund had well-developed policies on socially responsible investment, so pooling could be useful in setting in setting benchmarks on this and other issues.

Q: how will fund members be represented on the board of the investment company?
A: this will not be straightforward, because the company will operate commercially, while members' benefits are guaranteed by the state and will be paid irrespective of company performance, giving little incentive for members to become engaged with the affairs of the company. A member representative could be appointed to the Oversight Board.

The Chair asked for a report back to the Board when the system of voting rights on the Brunel board and the representation of fund members had been decided.

The Head of Business, Finance and Pensions said that the Brunel company would appoint the investment managers. Obtaining FCA approval would take time, and it would be necessary to appoint key members of the company board in advance. Company board members and the investment staff are regulated by the FCA. Each of the 10 administering authorities would have a contract with the company. Each fund would be a shareholder and a contract manager, though those roles would be separated. An independent chair, who is a former investment adviser, had been appointed as chair of the shadow Oversight Board. The Oversight Board has approved everything that had gone into the business case. The final business case would be considered by the Avon Pension Fund Committee in December and would be put to Bath and North East Somerset Council on 14 February 2017.

Q: will access for the administering authorities' internal or external auditors be specified in the contracts to allow verification of investment returns reported by the company?

A: scrutiny arrangements are yet to be fully developed. The Fund has never done its own checks on the returns reported by its investment managers, but has relied on the work of the managers' auditors.

Q: could we not look at the transparency arrangements that other pools are developing and included disclosure and transparency provisions in the contracts?
A: CIPFA issued new guidance on accounting for investment manager fees last year. Every year the Fund receives the valuations of investment managers and the reports of their auditors on them.

Pooling will have an impact on the governance arrangements of the Avon Pension Fund with the establishment of a Joint Committee. It will also impact on the Pensions Team, as functions are transferred to the investment company and mechanisms are established within the Fund for monitoring the contract with the company.

Q: will the investment company's risk register be shared with the Committee?
A: this will be decided by the company board and CEO when they have been appointed.

The Chair asked for a report back on any transparency obligations imposed on investment managers.

RESOLVED to note the update.

98 COMPLIANCE REPORT

The Acting Pensions Manager presented the report for the three months to the end of September 2016.

He said that it had been an intense period for staff, who had to deal simultaneously with the Fund valuation, the year-end process to comply with the requirements of TPR and the Fire Service valuation. The Team was also being restructured and consultations with staff would begin in a couple of weeks. He hoped that the new structure would be in place by the time of the next meeting of the Board.

He said that the Balanced Scorecard was still being revised and that the new format would be available at the next meeting. Some performance was down, particularly in relation to transfers in and transfers out. Support was being given to Bristol City Council (BCC) with its voluntary severance programme. Up to 1,000 staff would be leaving BCC before Christmas. Additional work is impacting on day-to-day performance and this would continue for some time. Annual Benefit Statements had been issued to all active and deferred members in accordance with the TPR requirement, where full member data existed. Penalty charges had been imposed on five employers for breaching the deadline for submission of year-end data. There were a further 30 employers who could be issued with a penalty charge, but this would be waived if they undertake training. There were 1400 cases for which complete data was not held. Data for these will be cross-checked with the employers.

The Chair asked whether employers being given training would be required to sign an improvement action plan. The Action Pensions Manager replied that the employers had already signed a service level agreement. The Chair pointed out that the TPR recommends that any employer who makes repeated errors should be required to sign an improvement action plan. He also suggested that employers should be advised that if there was missing data again, they can be reported to TPR for poor performance.

The Acting Pensions Manager spoke about the increase in workload, and said in a reply to a question from the Chair about how he would assess the level risk it posed on the Risk Register that he would rate it "amber". It was essential to use the Team restructuring to get the right staff in place and to secure better performance from the employers.

The Chair said that accurate data was crucial to the efficient working of the Fund. He commended the progress with the Data Improvement Plan, and said that pressure needed to be put on employers to cooperate. All the funds of which he had knowledge had problems with a minority of employers repeatedly failing to fulfil their obligations, and the APF should focus on those with repeated failures with further action if needed.

RESOLVED

1. To note Performance Indicators and Customer Satisfaction feedback for 3 months to 30 September 2016.

2. To note progress on the Data Improvement Plan.

3. To recommend to the Fund that:

    a. poorly performing employers, whether they undertake training or not, should be required to sign an improvement action plan;

    b. a letter should be sent to poorly performing employers advising them that they could be reported to The Pensions Regulator.

99 CODE OF PRACTICE 14 UPDATE

The Acting Pensions Manager presented the report.

The Chair said it was good that to note that there was no area of compliance with the Code of Practice that was rated as red for the Avon Pension Fund, but there were a number of items rated amber. He asked whether the Board could assist in improving compliance in these areas. The Head of Audit West asked the Board to consider the information given in Appendix 1 in the light of the Internal Audit (IA) Brief given in Appendix 2. IA would review compliance with the Code, focussing particularly on aspects relating to Board Members. He hoped that the two documents together would give Members assurance that there was a determination to achieve full compliance. IA might contact one or two Board Members during the review and the IA report would be presented to the Board.

The Chair said that there were two key areas, Members' training and the Register of Interests. He urged Members who had not done so to complete the TPR training as soon as possible and to submit their pass certificate to The Head of Audi West, preferably by January 2017. One Member needed to submit a Register of Interest form.

The Chair asked for an updated report to be presented to the next meeting of the Board.

RESOLVED to note the outcome of the review of the TPR's Code of Practice No 14 and latest position against best practice.

100 ACTUARIAL VALUATION UPDATE

The Head of Business, Finance and Pensions gave a presentation. A copy of his PowerPoint slides is attached to these minutes as Appendix 2.

He said that the valuation was occurring at time of increasing pressure on public finance, so a key issue in the future would be the management of the risks relating to employers' finances. The purpose of the valuation was to ensure that the Fund had enough money to pay benefits as they fell due. This was achieved by the right balance of contributions and investment returns. Ideally, increased investment returns would mean lower contributions, but increasing liabilities were more likely to require both to rise. One of the aims of the actuary was to achieve a common constant rate of contributions and avoid volatility of rates. The actuary would therefore take a long-term view of liabilities. Another important issue was cost efficiency. The Fund was mature, so more was paid out in benefits than was received in contributions. This was why the Fund was currently focussing on liability management. The actuary would set a "budget" for each employer based on a number of factors including age profile. Some of the smaller employers could have a complete change of staff in three years. The Fund consulted with all employers about the Funding Strategy Statement, which set out some basic principles about, for example, the deficit recovery period, how employers who leave the Fund are treated and how certain categories of employer are treated. Feedback shows that the main concern of employers is cost. The valuation would continue to the end of this calendar year, and would be presented to the March 2017 meeting of the Committee. It was expected that the valuation would result in limited overall change in contribution rates, but there would be variations for particular employers, which would need to be carefully explained to them.

A Member asked when it was estimated that 100% funding would be achieved. The Head of Business, Finance and Pensions said that there were variations between employers. He thought that a deficit recovery period of 12 or 15 years was the maximum that could be demanded in the current financial circumstances. Some employers would like a shorter recovery period because of changed demographics, for example. It would be interesting to see what view GAD took on an appropriate recovery period.

The Chair noted that it had been reported in the Financial Times that day that ten local authorities in the West Midlands were refusing to pay contribution increases. It was encouraging that this was not happening in the Avon Fund.

RESOLVED to note the update.

101 GAD SECTION 13 REPORT ON LGPS FUNDS

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

RESOLVED to note the Section 13 Dry Run Report.

[Tony Whitlock and Mark King left the meeting].

102 RISK MANAGEMENT UPDATE

The Acting Pensions Manager presented the report and distributed copies of the Avon Pension Fund Risk Register.

The Chair welcomed the improved format of the report, which now showed the trend, where the likely impact would be, the current status of the risk and a commentary. It was now much easier to spot changes.

RESOLVED to note the report.

103 TRAINING AND WORK PLAN UPDATE

[This item was taken before minute items 101 and 102 to allow two Members to leave to catch their trains.]

The Head of Audit West said it was important that the Training Plan was kept up to date to ensure it remained fit for purpose, and asked Members to let him know of any changes they thought should be made.

The Chair asked Members to keep their training logs up to date and to notify any training undertaken to the Head of Audit West, so that it could be entered into the central record.

RESOLVED to note the report and endorse the high-level Training and Work Plans outlined in Appendices A and B and a that a table of LPB Members' training from appointment to the end of 2016 would be presented to the next meeting.

104 CHAIRMAN'S REVIEW OF MEETING

The Chair said that, given the time pressures there had been today, it would be inadvisable to have two presentations at any future meeting. A Member suggested that it would be helpful if presentations could be circulated to Members before the meeting; this would allow more time for Members' discussion and questions at the meeting.

The Chair said that TPR had issued a 15-page self-assessment document for Members. He suggested he should complete it on behalf of the Board in consultation with officers to feed into the TPR annual survey of LGPS funds, and that the reply would be made available to LPB members. This was agreed by the Board.

105 DATE OF NEXT MEETING

The next meeting is scheduled for 16 February 2017 at 2pm.

Because of the travel problems experienced by Members today, it was agreed that the next meeting should be held in Bath.

The meeting ended at 4.11 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services