

Democratic Services

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Date: 16 May 2017

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To: All Members of the Pension Board

Howard Pearce (Chair)

Gaynor Fisher

Steve Harman

Mark King

Tom Renhard

David Yorath

Tony Whitlock

Chief Executive and other appropriate officers
Press and Public

Dear Member

Pension Board: Tuesday, 23rd May, 2017

You are invited to attend a meeting of the **Pension Board**, to be held on **Tuesday, 23rd May, 2017 at 2.00 pm** in the **Kingston Room - Pump Room, Bath**.

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall, Bath (during normal office hours).
2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

4. **Recording at Meetings:-**

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

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5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

7. Emergency Evacuation Procedure

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Pension Board - Tuesday, 23rd May, 2017

at 2.00 pm in the Kingston Room - Pump Room, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE
2. APOLOGIES FOR ABSENCE
3. DECLARATIONS OF INTEREST
4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR
5. ITEMS FROM THE PUBLIC
6. ITEMS FROM MEMBERS
7. MINUTES OF PREVIOUS MEETING (Pages 7 - 16)
8. CHAIR'S INTRODUCTION AND UPDATE
9. DRAFT MINUTES OF THE AVON PENSION FUND COMMITTEE OF 24 MARCH 2017 (Pages 17 - 20)

The public minutes of this meeting are available at:

<https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=212&MId=4254&Ver=4>

The exempt minutes are attached. If members wish to discuss these they should resolve to go into exempt session.
10. DRAFT MINUTES OF THE PENSION INVESTMENT PANEL OF 22 FEBRUARY 2017 (Pages 21 - 24)

The public minutes of this meeting are available at:

<https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=213&MId=4760&Ver=4>

The exempt minutes are attached. If members wish to discuss these they should resolve to go into exempt session.

11. LGPS UPDATES AND DEVELOPMENTS (Pages 25 - 30)
12. PROJECT BRUNEL - VERBAL UPDATE
13. EXTERNAL AUDIT UPDATE (Pages 31 - 50)
14. INVESTMENT STRATEGY STATEMENT (Pages 51 - 74)
15. AVON PENSION FUND SERVICE PLAN (Pages 75 - 78)
16. COMPLIANCE REPORT (Pages 79 - 100)
17. RISK REGISTER UPDATE (Pages 101 - 106)
18. ANNUAL REPORT (Pages 107 - 122)
19. TRAINING AND WORK PLAN UPDATE (Pages 123 - 130)
20. CHAIR'S REVIEW OF MEETING

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

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BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 16th February, 2017

Present:- Howard Pearce (Chair), Mark King (Member Representative), Tom Renhard (Member Representative), David Yorath (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)

106 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the emergency evacuation procedure.

107 APOLOGIES FOR ABSENCE

Apologies for absence were received from Gaynor Fisher (Employer Representative) and Steve Harman (Employer Representative).

108 DECLARATIONS OF INTEREST

There were no declarations of interest.

109 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was no urgent business agreed by the Chair.

110 ITEMS FROM THE PUBLIC

There were no items from the public.

111 ITEMS FROM MEMBERS

There were no items from members of the Pension Board.

112 MINUTES OF THE MEETING OF 2ND NOVEMBER 2016

The minutes of the meeting held on 2 November 2017 were confirmed as a correct record and signed by the Chair.

It was confirmed that the issue raised under minute number 96 regarding “specific roles and responsibilities” had now been clarified with TPR.

In response to a query from a member of the Board, officers confirmed that the Secretary of State did have intervention powers but that it was currently unclear how these would be triggered.

113 CHAIRMAN'S INTRODUCTION AND UPDATE

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.

He stated that nationally all LGPS pension funds currently appear to be focussed on pooling. There had also been a good deal of press coverage recently regarding the LGPS (for example exit payments and the number of issues still to be decided).

114 DRAFT MINUTES OF THE AVON PENSION FUND COMMITTEE OF 9TH DECEMBER 2016

Officers confirmed that the Council had approved the recommendations of the Avon Pension Fund Committee at its meeting on 14 February 2017.

RESOLVED: To note the draft minutes of the Avon Pension Fund Committee held on 9 December 2016.

115 DRAFT MINUTES OF THE PENSION INVESTMENT PANEL OF 14TH NOVEMBER 2016

RESOLVED: To note the draft minutes of the Avon Pension Fund Committee – Investment Panel meeting held on 14 November 2016.

116 LGPS UPDATES AND DEVELOPMENTS

The Pension Board considered a report which summarised key developments within the Local Government Pension Fund sector, the most significant of these being the proposal for pooling of investments. The following issues were discussed:

- A new pensions scams consultation had been published but no response had been submitted. Officers explained that instructions were not taken from Independent Financial Advisors but only from fund members.
- A consultation regarding indexation and equalisation of Guaranteed Minimum Pensions (GMP) was published on 28 November 2016. A response would be sent on Monday 20 February 2017. The pension fund would pick up full liability for this going forward and a paper would be published in due course. GMP was the result of harmonisation of the state pension and historic protection of the pension. Officers felt that this was unlikely to affect a great deal of people but did not want the LGPS to be impacted.
- The Enterprise Act came into effect in February. The Regulations regarding the exit cap were currently on hold because of responses received regarding equity and fairness. Officers would provide further updates to the Board in due course.
- The new Committee and Sub-Committee had been announced and Alan South, Technical Advisor was now a substitute for the Cost Management and Scheme Design Committee as a practitioner representative.

- A new template had been released for the LGPS fund accounts but there were no material changes to the format. From 2018 the required date for closure of accounts would be 31 May. A “dry run” was being carried out this year to ensure closure by 31 May to test the process.
- The Guidance on Preparing and Maintaining an Investment Strategy Statement required Administering Authorities to take proper advice. However, “proper advice” did not seem to be clearly defined.

RESOLVED: To note the report and latest developments in the light of the Pension Board work plan.

117 PROJECT BRUNEL - VERBAL UPDATE

The Head of Business, Finance and Pensions updated the Board regarding Project Brunel. The following issues were covered in the update:

- At the full Council meeting held on 14 February 2017, cross party support was given to enter into investment pooling with respect to the Avon Pension Fund. The remaining authority to consider this issue was Wiltshire Council who would meet next week.
- The Council had agreed to delegate authority to the Head of Business, Finance and Pensions, Chief Legal Officer and Section 151 Officer to undertake such tasks as they think were appropriate to progress implementation of investment pooling. The project was therefore moving forward.
- The position of the role of Chair to the Brunel Pension Partnership had now been advertised and a longlist had been produced. Once the Chair was in place a Chief Executive and other key board members would then be appointed. The Oversight Board would consist of a both officers and councillors.
- Preparatory work was also being carried out regarding the required contracts including setting up an organisation to oversee the transition. There could be a single transition manager or a number of specialist managers.
- Confirmation had been received from the Pensions Minister for the project to go ahead. Approval was now required from the Financial Conduct Authority (FCA).
- Funding of the project was also being considered and a contingency fund had been set up. Remuneration for all parties was also being looked at and it was possible that this may be over and above the usual public sector pay scales. However, it was felt that the benefits would outweigh any additional costs.
- Governance and audit arrangements would also have to be confirmed.

- Transition of assets also had to be considered and officers had made representations to the Treasury regarding assets as this would be a form of windfall tax (approximately £50m) for the Government.
- Discussions were ongoing as to how individual funds would meet the cost of set up and transition.
- The project was on track but there was a significant amount of legal and governance work still to be undertaken.

Members then asked questions regarding the project as follows:

Q. What will the representation be on the Oversight Board?

A. The Board will be made up of the Chairs of the 10 funds and an independent Chair. Guidance from the Department of Communities and Local Government (DCLG) was awaited. There would be one vote per fund which would avoid domination by any one large fund.

Q. How would the Board have a voice on this project?

A. The role of the Pension Board would be to comment on the robustness of the project including the appointment and recruitment process, monitoring of the contract etc and to act as a conduit for the voice of members and employers.

Q. Will there be real costs and savings?

A. The bottom line would be the investment manager fees and in theory these should be lower.

Q. Is best practice regarding efficiency and effectiveness being considered and shared with other funds?

A. The Brunel investment managers already meet on a regular basis and this project would provide an opportunity for more collaborative working.

Members noted that the Government required a 20 year plan to be produced and reported on. Robust audit of the project and transparency would be essential.

The Chair summed up by stating that the Pensions Board had no concerns regarding LGPS non-compliance. He requested that a further report and briefing paper be brought to a future meeting giving details of the proposed governance framework to enable members to consider its efficiency and effectiveness.

He also requested that a report be prepared for a future Board meeting providing details of how future Brunel costs and benefits would be internally and externally audited.

The Head of Business, Finance and Pensions stated that verbal updates on the project would be provided in May and July. The Pension Fund Committee would receive a governance report at its June meeting and this Board could also put forward comments. He informed members that there a

project implementation plan had been produced and that he was happy to share this with the Pensions Board at their November meeting.

RESOLVED: To note the update regarding Project Brunel.

118 INVESTMENT STRATEGY STATEMENT - VERBAL UPDATE

The Head of Business, Finance and Pensions gave a verbal update regarding the investment strategy statement. He explained that a new investment strategy statement had to be produced to take account of the pooling of funds. Ethical investment details also had to be included. The statement was in the process of being drafted but was not yet finalised, once complete a copy would be circulated to the Pension Board.

It was noted that the Pension Board was required to be consulted on the statement and to put forward its views on any non-financial issues and to assess risk.

The Board requested the Head of Business, Finance and Pensions to prepare a checklist from the guidance documents to assist the Pension Board in its role.

RESOLVED: To request the Head of Business, Finance and Pensions to circulate the investment strategy statement to Pension Board members to enable them to comment on its compliance with DCLG statutory guidance. The statement will then be submitted to the Pensions Committee for consideration along with any comments received.

119 VALUATION UPDATE

The Board considered a report which summarised the results from the triennial valuation as at 31 March 2016 and the distribution of the results to scheme employers.

Officers were currently working through the valuation results and raising any queries with the actuaries. The initial outcome of the valuation showed a funding level of 87% with a 13% deficit. A robust valuation process was in place which planned to stabilise and reduce the deficit in 10-15 years. The strategy was beginning to pay dividends without putting too much pressure on employers.

Officers reported that longevity was now plateauing. They also informed the Board that not many members were taking up the 50/50 scheme.

It was noted that the actuarial report would be signed off by 31 March 2017. The Pension Board was satisfied that there was regulatory compliance and that investigations would be completed on time.

RESOLVED: To note the outcome of the actuarial valuation 2016.

120 COMPLIANCE REPORT

The Board considered a report which set out details of performance figures for fund administration for the three months to 31 December 2016. Further to the

introduction of The Pension Regulator (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, the report also included progress on the TPR Data Improvement Plan and levels of employer compliance.

The Pensions Manager reported that a significant project had been undertaken to review the reporting process. The reports had been overhauled and new benchmarking reports had been produced. The shortage of resource had been an issue but the Member Services Team had now been restructured and 8 posts were currently being advertised which should address some of these concerns.

The Internal Audit report was good. There were currently 280 employers. It was noted that employers were losing key staff in HR and payroll which highlighted the importance of training provision. There had been performance issues from some employers which were being addressed and had been added to the risk register. There was a clear improvement in end of year data. Work relating to deaths and retirements was being prioritised.

31 employers had breached the data queries last year. Of these 29 had completed the bespoke training workshop to improve performance and the remaining 2 had been fined.

All 280 employers had been asked to complete information to ensure that the data was up to date.

In response to a query from a member officers explained that the ultimate sanction for employer breaches was to be reported to the TPR who could then issue a fine. However, there was likely to be a warning in the first instance. It was noted that there tended to be different employers breaching each year rather than one or two who consistently breached.

Officers also explained that employers could not be forced to attend training although it was hoped that they would do so. The Chair asked that the Pension Board be informed if the 2 employers who had breached last year and not yet attended training did not take up the offer of a workshop.

The Chair also requested that the Board be kept informed of any repeat offenders who continue to breach. It was important to train, encourage and enforce and to flag up the latest position with regard to data queries. It was also important to thank those employers that were doing well.

It was noted that trends can now be tracked from quarter to quarter to ease performance monitoring.

RESOLVED to note:

- (a) The membership data, employer performance and Avon Pension Fund performance for the 3 months to 31 December 2016.
- (b) Progress and reviews of the TPR Data Improvement Plan.

121 BENCHMARKING UPDATE

The Board considered a report setting out the results of the CIPFA benchmarking club survey 2016.

The general Avon Pension Fund measurements were good. The cost per member was likely to change next year once the resource had increased. The communication strategy would lead to a drive towards more electronic methods of working which should lower costs. There was currently a good deal of investment in IT to enable this to happen.

In response to a question from a member officers explained that, in recent years, fewer authorities were responding to the benchmarking questionnaire. The questions were becoming longer and taking a lot of time to complete. It was felt that the benchmarking process required an overhaul to avoid it losing value.

RESOLVED: To note the report.

122 RISK REGISTER UPDATE

The Board considered a report which provided an update on the current position of the Avon Pension Fund Risk Register and its top risks.

The Head of Audit West informed the Board that the risk register was now being produced in a new format.

It was noted that due to the proposed restructure there would be a risk around performance due to the recruitment of 8 new staff.

The risk register set out the top 10 risks (in order of when added to the register) and reflected the level of risk post-mitigation with focus being on the action taken during the reporting period. Officers agreed to consider how the register was presented to the Board in future and whether improvements could be made.

RESOLVED: To note the report and to receive the full risk register including the top 10 risks at the next meeting.

123 INTERNAL AUDIT UPDATE

The Board considered a report which gave an update on Internal Audit activity. Appendix 1 of the report set out a summary of audits which had taken place.

Internal Audit had undertaken a review of the risks and controls related to Pensions Governance and assessed the framework of internal control at Level 4 which was good. A total of 2 audit recommendations were set out in the Action Plan. The recommendations related to incomplete training logs for Board members and a declaration of interest to be completed.

The declaration of interest issue had been dealt with immediately and was now resolved. At the time of review only 3 out of the 6 Pension Board members plus the

Chair had fully completed the recommended training. 2 members were still required to complete this.

The Chair stated that he would send an email to the 2 members who had not yet completed their training asking them to do so by 31 March 2017.

Internal Audit had also undertaken a review of the risks and controls relating to Pensions Admin and assessed the framework of internal control at Level 5 which was the top rate and a very positive outcome.

The Board discussed the areas that had been flagged up for potential inclusion in the 2017/18 plan connected to the Pension Fund and Pension Board. It was noted that these currently significantly exceeded the time available and the Board discussed its priorities. Members agreed that the Pensions Accounting Standards audit could be put on hold.

RESOLVED:

- (1) To note the report and outcomes from Internal Audit work.
- (2) To request that the following areas be included in the B&NES Council Audit Plan for 2017/18:
 - Pensions Investments
 - Pensions Administration – System Calculations
 - Pensions Administration – Employer Contributions
 - Pensions Governance (COP 14)
 - Pensions Payroll

124 TRAINING AND WORK PLAN UPDATE

The Board considered a report which set out updates on training and workplan issues and presented the current outlines of the Training and Work Plans.

Individual Board members were required to maintain their own training log to evidence how they were fulfilling their responsibilities and that these were collated and overseen by Head of Audit West. The Chair asked whether members had any training needs requests which they wished to raise.

One member pointed out that new regulations would be coming into effect shortly and refresher training was likely to be needed on this. It was suggested that “bite sized” training sessions could take place at the regular Pension Board meetings to ensure that members’ knowledge was up to date.

The Chair asked whether members were able to access the information they required to keep up to date with developments in the pensions field. Members confirmed that websites were helpful along with attendance at relevant CIPFA seminars. The Chair pointed out that there was an Avon Pension Fund Employers Conference taking place on 28 February 2017 in Bristol which would be helpful to members.

RESOLVED:

- (1) To note the report and to endorse the high level Training and Work Plans outlined in Appendices 1 and 2 of the report and the indicative budget at Appendix 3.
- (2) To receive future training as a group on the governance relating to the Brunel Project.

125 CHAIRMAN'S REVIEW OF MEETING

The Chair thanked everyone for attending the meeting and reminded members that the next meeting would take place on Thursday 11 May 2017.

The meeting ended at 4.15 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 9

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 10

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Bath & North East Somerset Council	
MEETING:	LOCAL PENSION BOARD
MEETING DATE:	23rd May 2017
TITLE:	LGPS Update – Latest Developments
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:- Appendix 1 Summary of Consultations and Surveys	

1 THE ISSUE

- 1.1 This report summarises key developments within the Local Government Pension Fund sector, the most significant of these being the proposal for pooling of investments. (Separate verbal update will be given on this item)

2 RECOMMENDATION

That the Pension Board

- 2.1 Notes the report and latest developments and considers the issues in light of their own work plan.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct implications related to the Pension Board in connection with this report.
- 3.2 With regard to the Pension Fund there will be costs associated with setting up a pooled arrangement. These are a matter for the Pension Fund and will be costed once there is a decision as to the pooling arrangements to be established.

4 REPORT

- 4.1 The Board has been regularly updated on key national developments regarding the future of Local Government Pension Funds and detail on the proposed pooling arrangements. The implications in this area are highly significant and could lead to major changes to future governance structures with regard to Local government pension Funds.
- 4.2 The Head of Pensions will verbally update the Board separately on the latest position with regard to these significant changes and this report and appendix 1 refers to all other key developments and consultations.

5. RISK MANAGEMENT

5.1 A proportionate risk assessment has been undertaken and there are no significant issues to report, as this is an information report.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 Report has been subject to consultation with S151 Officer.

Contact person	Tony Bartlett; Head of Business Finance & Pensions 01225 477302 Liz Woodyard; Investments Manager 01225 395306 Alan South; Technical & Compliance Manager 01225 395283 Jeff Wring; Head of Audit West 01225 477323
Background papers	Various Statistical Records
Please contact the report author if you need to access this report in an alternative format	

Update of Matters circulating that are likely to affect Scheme Administration MAY 2017

Organisation	Subject	Link	Comments
HM Treasury	Pensions scams: consultation	https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation	Published 5 December and closing on 13 February 2017, This consultation sets out a package of measures aimed at tackling three different areas of pensions scams, a cold calling ban consulting on clarifying the law so that Funds can block pension transfers based if concerned it's a Scam, and looking at single member occupation pension schemes only being registered by active companies
UPDATED	Indexation and equalisation of GMP in public service pension schemes	https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes	Published on 28 November 2016, and a response sent from APF; this consultation gave three options for increasing Guaranteed Minimum Pensions (GMP) within the public sector for those reaching State Pension age from 6 December 2018. Whilst a preferred option was given, the response also gave support to a fourth option suggested by the Fund Actuary which proposed that central government should adopt some of the cost instead of passing this to the pension schemes involved. A response is not scheduled until next year.
	Reforms to public sector exit payments: response to the consultation No further progress and introduction will be put back as a result of General Election	https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments http://www.legislation.gov.uk/ukxi/2017/70/pdfs/ukxi_20170070_en.pdf	Introduction of new regulations for exit payments appear to have been further delayed. <ol style="list-style-type: none"> 1. recovery of exit payments for high earners who are re-employed actual regulations expected any time 2. the £95k cap for exit. Employment Enterprise Regulations have commencement regulations effective from 1 February 2017 short consultation possible awaiting further information 3. Third tranche on exit payments Government responded to the consultation on reforming exit payments across the public sector. Departments asked to submit details of their proposals, including limits on employer funded early access to pension benefits (e.g. redundancy and business efficiency retirements in the LGPS).
HM Revenues & Customs	Revenue and Customs Brief 14 (2016): VAT, Deduction of VAT on pension fund management costs following Court of Justice of the European Union decision in PPG	https://www.gov.uk/government/publications/revenue-and-customs-brief-14-2016-vat-deduction-of-vat-on-pension-fund-management-costs-following-court-of-justice-of-the-european-	Changes to the reclamation of VAT on fund management costs may affect LGPS funds once pooling is in place. These changes were originally due with effect from 1st January 2017 but have now been pushed back to 1st January 2018. Project Brunel will be keeping an eye on how it is evolving and take appropriate advice. Consultation closed 31 December 2017

		union-decision/revenue-and-customs-brief-14-2016-vat-deduction-of-vat-on-pension-fund-management-costs-following-court-of-justice-of-the-european-union-decision	
DCLG UPDATED	LGPS Regulations: Draft Amendment Regulations with Best Value & Fair Deal consultation and freedom and Choice options	https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations	<p>This consultation reviews the approach for Best Value and Fair Deal for the transfer of staff. Closed 20 August 2016. Response has led to DCLG deciding to split these away from the amendment regulations as rethink required. Nothing expected before June 2017</p> <p>The other amendments will be processed earlier but need changes to the Freedom and Choice section so short consultation may be required. Provisional expected date of Mar/Apr 2017 is appears unlikely</p>
The Pension Regulator (TPR)	<p>TPR provides guidance for trustees setting and monitoring investment strategies PN17-12 [30/03/2017]</p> <p>Clarification sought from TPR on LGPS implications [27/4/2017]</p>	http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx	As part of its strategy to produce simpler guidance for occupational pension schemes, The Pensions Regulator (TPR) has recently published new investment guidance for trustees.
Government Actuaries Department (GAD)	Managing risks in the public service pension schemes	https://www.gov.uk/government/publications/managing-risks-in-public-service-pension-schemes-thoughts-on-measures-and-control-mechanisms	GAD has published a document outlining its thoughts on a report published in June from the National Audit Office on the Government's public sector pension liability. The document sets out some ideas on appraising long-term risks for public sector pension schemes.
Financial Conduct Authority (FCA) UPDATED	CP16/29: Markets in Financial Instruments Directive II implementation – Consultation Paper III	https://www.fca.org.uk/publications/consultation-papers/cp16-29-mifid-ii-implementation	<p>This consultation closed on 4 January 2017, and looked at the Markets in Financial Instruments Directive II (MiFID II) which takes effect on 3 January 2018. The main concern for the LGPS is all investors would be treated as “retail” investors as opposed to “professional” clients. This would have significant implications for the investments available to LGPS Funds and significantly impede the implication of investment pooling. A response was drafted by the Brunel Pension Partnership on behalf of the 10 Founder Funds and can be viewed at the following link: https://www.brunelpensionpartnership.org/en/news/2017/01/bpp-response-to-mifid-ii-consultation</p> <p>The FCA will be issuing its response and any changes to the criteria to enable LGPS funds to opt up more easily by end of June 2017. Investment Management Association working with LGA and FCA to</p>

			agree standard LGPS opt-up template for all investments managers to use to reduce burden on LGPS funds (have to be approved by each of your managers)
Scheme Advisory Board(SAB)	Academies' review Academies and the LGPS	http://www.lgpsboard.org/index.php/structure-reform/review-of-academies Above link has been updated to report these developments S:\Pensions\Users Shared\Communication\Pension Board\LGPS Information Notes on Academies from DCLG and DFE April 2017	Ministers agreed that DfE, DCLG, GAD and the Board should continue to work closely together to pursue solutions, engaging key stakeholders including pension funds, actuarial firms and academy trusts as appropriate. The next stage will be to gather relevant evidence and develop specific proposals for change that the Board will consider before submitting its recommendations to Ministers for their consideration. A series of information pages on the Local Government Pension Scheme (LGPS) as it affects academies in England. Was released by DCLG and DFE. In April, 2017
	Investment fees - Code of Transparency	http://www.lgpsboard.org/index.php/structure-reform/cost-transparency	The move toward investment fee transparency and consistency is seen by the Board as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments. To assist LGPS funds in obtaining the data they require in order to report costs on a transparent basis the Board is working to develop a voluntary Code of Transparency for LGPS asset managers
NEW	Committees – membership & remit	http://www.lgpsboard.org/index.php/sub-comms/membership-remit	The new Committee and sub-Committee have been announced. Alan South [Technical Advisor] is a substitute for the Cost Management & Scheme Design Committee as a practitioner representative.
CIPFA NEW	LGPS Fund Accounts 2016/17: Example Accounts and Disclosure Checklist [Dec 2016]	http://www.cipfa.org/policy-and-guidance/publications/i/lgps-fund-accounts-201617-example-accounts-and-disclosure-checklist-online?	
	Investment pooling guidance	http://www.cipfa.org/policy-and-guidance/publications/i/investment-pooling-governance-principles-for-lgps-administering-authorities-	Guidance for Funds to consider when setting up pooling of investments.

		online	
	Funding Strategy Statement Guidance	http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition	This guidance has now been published and it helps authorities to review and update their FSS to take account of this new guidance and associated regulatory changes.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND – LOCAL PENSION BOARD	
MEETING DATE:	23 May 2017	AGENDA ITEM NUMBER
TITLE:	EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31 st MARCH 2017	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 - Audit Plan		
Appendix 2 – FRC Draft Exposure Note - https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Consultation-and-Impact-Assessment-Proposal-to-re/Exposure-Draft-Practice-Note-15-(Revised).aspx		

1. THE ISSUE

- 1.1. The Pension Fund External Audit Plan, attached as **Appendix 1** was prepared by the external auditors Grant Thornton.
- 1.2. The plan was presented and approved at the Pension Fund and Corporate Audit Committee's and is being distributed to the Pension Board as part of their role in scrutinising the role of the External Auditor with regard to key governance requirements relating to the Pension Fund.
- 1.3. The External Auditor will provide a fuller briefing of their planned work at the meeting.

2. RECOMMENDATION

That the Board notes

- 2.1 The Audit Plan for the financial year ended 31 March 2017.

3. FINANCIAL IMPLICATIONS

- 3.1. The financial implications of the audit report are primarily related to the fees for the external audit which are within existing resources

4. AUDIT PLAN

- 4.1 The audit plan sets out the work which Grant Thornton intend to carry out for the 2016/17 audit of the Pension Fund accounts. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on the auditors work and the dates for its completion.
- 4.2 The indicative fee for the 2016/17 audit is £28,805. This is the same as the fee for 2015/16 although a £1,311 variation was also incurred reflecting the additional assurances that the auditors were required to provide to the auditors of third party organisations.
- 4.3 The External Auditor will provide a fuller briefing on the plan at the meeting and also comment on the FRC Exposure Draft Practice Note 15 at Appendix 2.

5. RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

- 6.1 An equalities impact assessment is not necessary.

7. CONSULTATION

- 7.1 N/A

8. ADVICE SOUGHT

- 8.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Jeff Wring – Head of Audit West
Background papers	
Please contact the report author if you need to access this report in an alternative format	

The Audit Plan for Avon Pension Fund

Year ended 31 March 2017

February 2017

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24 February 2017

Dear Members of the Audit Committee

Audit Plan for Avon Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Avon Pension Fund, the Corporate Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Julie Masci

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1 April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the Authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the Authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The results of the triennial review are expected from the Fund's actuary, Mercers. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Cashflow

With an aging population many LGPS Funds experience a negative cashflow position, where benefits payable exceed contributions receivable. The Fund will need to consider the impact of this within its investment strategy.

Key performance indicators

Measure	Value Sept 16 (as at March 2016)
Funding level	89% (83%)
Net cash outflow forecast	£20,531k (£24,219k)
Number of active employers	246 (230)

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

Estimation

We have discussed with management the increasing importance around the documentation and use of estimates in order to meet the earlier close deadline. Management have highlighted investment fund manager valuations and fair value disclosures as areas of significant estimation.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 28 July 2017, with work on the Annual Report to follow.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £37.369m (being 1% of net assets). In the previous year, we determined materiality to be £38.348m (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1.868m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following item where a separate materiality level is appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Investment management expenses	Due to public interest in these disclosures.	£2m

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Avon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Bath and North East Somerset Council (administering authority), mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Avon Pension Fund.</p>
Management override of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation (interim M1-M9) <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management (year-end) • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation (M10-M12) • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Level 3 Investments Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	Work completed to date: <ul style="list-style-type: none">• We have performed walkthrough tests of the controls identified in the process. Further work planned: <ul style="list-style-type: none">• We will update our understanding of your process for valuing level 3 investment through discussions with relevant personnel from the Pension Fund.• For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period.• Review the controls in place at the fund managers to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.• To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.• Review the competence, expertise and objectivity of any management experts used (actuary).

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	Work completed to date: <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the process Further work planned: <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.
Investments – All levels	Investment activity not valid (Valuation gross)	Work completed to date: <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the process Further work planned: <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances
Contributions	Recorded contributions not correct (Occurrence)	Work completed to date: <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the process Further work planned: <ul style="list-style-type: none"> Controls testing over occurrence, completeness and accuracy of contributions Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the process <p>Further work planned:</p> <ul style="list-style-type: none"> Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data Page 41	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the process Sample testing of changes to member data made during the year to source documentation (M1-M9) <p>Further work planned:</p> <ul style="list-style-type: none"> Review of membership movements Sample testing of changes to member data made during the year to source documentation (M10-M12)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

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- Cash deposits
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments
 - Investment Income
 - Investment purchases and sales

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

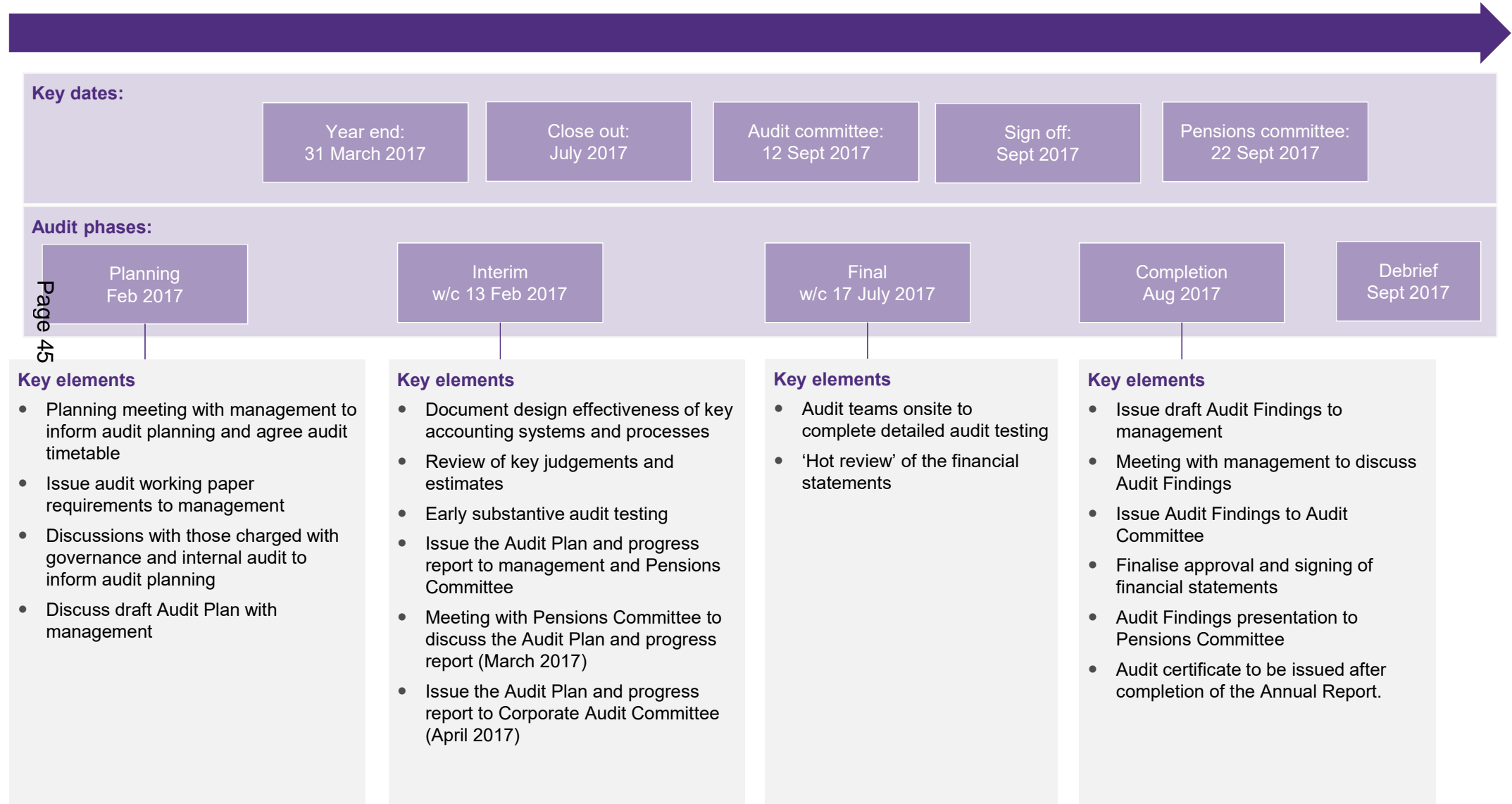
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Fund's governance arrangements and benefits administration to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements.</p>
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Following our audit recommendations issued in 2014-15 and 2015-16, the Fund has updated its journal processing arrangements in order to separately identify pension fund journals from those of the main council. From our interim review of journals we are satisfied that the pension fund journal type has been appropriately used to post pension fund specific journals. We will update our journals testing for the full year at the final accounts visit.</p> <p>We have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p>
Early substantive testing	<p>We have reviewed a sample of changes to member data made during the first nine months of the year to source documentation.</p>	<p>No issues have been identified where changes to the member data system have been made without appropriate notification from employers/ members.</p> <p>The remaining three months of the year will be completed at the final accounts visit.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Pension fund audit	28,805
Proposed fee variation – IAS 19 *	1,311
Total audit fees (excluding VAT)	30,116

* Fee variation – as per the prior year there will be a proposed variation to the scale fee to reflect the additional work that we are required to undertake on behalf of other employers that contribute into Avon Pension Fund. This fee variation will be subject to approval from PSAA.

Page 4

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Avon Pension Fund. There were no audit related or non-audit identified for the Fund for 2016/17.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

Respective responsibilities

As Auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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Bath & North East Somerset Council			
MEETING:	LOCAL PENSION BOARD		AGENDA ITEM NUMBER
MEETING DATE:	23 May 2017		
TITLE:	INVESTMENT STRATEGY STATEMENT - UPDATE		
WARD:	'ALL'		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – Investment Strategy Statement			
Appendix 2 – Response to Pensions Board comments			
Appendix 3 – Investment Strategy Statement: Compliance Checklist			

1 THE ISSUE

- 1.1 The revised investment regulations, the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 came into effect from 1 November 2016. Regulation 7 requires all administering authorities to put in place an Investment Strategy Statement by 1 April 2017. There is also guidance accompanying the Regulations.
- 1.2 The new Investment Strategy Statement (ISS) replaces the requirement for the Fund to publish a Statement of Investment Principles.
- 1.3 The ISS must be consistent with the Funding Strategy Statement to ensure that there will be sufficient funds to meet the pension benefit payments as they fall due over time.
- 1.4 The regulations state that the ISS must be kept under review and revised from time to time particularly when there is a material change in risk, and reviewed at least every three years. They require the Pensions Board to be consulted.

2 RECOMMENDATION

That the Pension Board:

- 2.1 Notes the Investment Strategy Statement
- 2.2 Notes the response of the Pension Committee to comments from the Pension Board regarding the Investment Strategy Statement, and the plans for future updates
- 2.3 Notes the assessment of current compliance of the Investment Strategy Statement with the regulations

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 There is provision in the 2017/18 budget for the investment advisors to review the Investment Strategy Statement where appropriate.

4 INVESTMENT STRATEGY STATEMENT AND RESPONSE TO PENSION BOARD CONSULTATION

- 4.1 This is the first Investment Strategy Statement (ISS) (see Appendix 1) and it replaces the Statement of Investment Principles. It was agreed by Pension Committee on 24 March 2017 and is publically available on the Fund's website.
- 4.2 The Pension Board provided comments to the Pension Committee on the draft ISS. Appendix 2 summarises these comments with the Fund's responses which were considered by the Committee when approving the ISS. The document identifies actions to respond to the majority of comments and explains where an action is not considered necessary. Responses underlined are those which were adopted in the final version of the ISS with the remaining responses noted to be made in future updates of the ISS particularly once the new Investment Strategy has been agreed in July. The Committee agreed with the responses as listed in Appendix 2.
- 4.3 The ISS will be revised following the Strategic Review to be undertaken in 2017 and then reviewed regularly during the transition of assets to Brunel Pensions Partnership and at least annually by the Committee (as was the SIP).
- 4.4 The process for agreeing statutory documents is that draft statements are presented to the Committee where key stakeholders are fully represented followed by a consultation period (with appropriate timescale) with the LPB and if required, with other stakeholders, before final publication in the public domain.
- 4.5 Appendix 3 provides a checklist assessing compliance with the regulations with additional explanation where required.

5 RISK MANAGEMENT

- 5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

- 6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

- 7.1 Pension Board were asked to comment.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 For noting only.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact persons	Matt Betts, Assistant Investments Manager (01225 395420)
Background papers	Guidance on Preparing and Maintaining an Investment Strategy Statement - https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement

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Avon Pension Fund

Investment Strategy Statement

March 2017



Avon Pension Fund Investment Strategy Statement

1. Introduction

The Avon Pension Fund (the Fund) is administered by Bath & North East Somerset Council, which is legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (the Committee), which is its formal decision making body.

The Committee is supported by a sub-committee, the Investment Panel (the Panel), which considers matters relating to the management and investment of the assets of the Fund in greater detail. Although the Panel has delegated powers to take decisions on specific issues (including the selection, monitoring and termination of mandates) and makes recommendations to the Committee, responsibility for setting strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to officers.

In addition, the Local Pension Board has an oversight and scrutiny role to ensure good governance through monitoring of the Fund's performance, activity of the Committee and adherence to statutory duties.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations) require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This statement sets out the principles that will guide the Committee when making decisions about the investment of the Fund's assets. It also sets out the framework for investing the Fund's assets which is consistent with the funding strategy, as set out in the [Funding Strategy Statement](#).

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. This statement will be reviewed by the Committee at least triennially or more frequently should any significant change occur.

The Investment Governance Principles ("the Principles") set out a code of best practice in pension fund governance, investment decision making and disclosure. The Fund fully complies with the Principles. Appendix 1 sets out the Fund's compliance with the Principles.

2. Investment Beliefs

The Fund has the following investment beliefs which underpin the investment strategy and guide decision making around investment of the Fund's assets.

- **The Funding Strategy and the Investment Strategy, and thus the employer contribution rates, are inherently linked.** A material change to one cannot be effected without due regard for the others.
- **Strategic asset allocation** is the key factor in determining the risk and return profile of the Fund's investments.
- **Investment governance is key to effective decision making.** The Fund has a governance framework in place that ensures effective decision making regarding the investment of its assets.
- **Long term approach to investing.** The strength of the employer covenant and funding strategy, which allows for any deficit to be recovered over time, enables the Fund to take a long term view of investment strategy.
- **Diversification of assets is an important element of the risk management framework.**
- **Environmental, Social and Governance factors** are important drivers of the sustainability of investment returns over the long term and they can have a material financial impact if not managed appropriately.
- **Active management can add value to returns, albeit with higher short term volatility.**

- **Value for money from investments** is important, in terms of net returns. Asset pooling is expected to help reduce costs over the long term, whilst providing more choice of investments, and therefore have the potential to enhance Fund returns.

3. Investment Objective

The Fund's investment objective is to achieve a return on the assets, consistent with an acceptable level of risk that will enable the Fund to meet its pension liabilities over time, that is, to achieve 100% funding in line with the funding strategy. The investment strategy must therefore generate returns that will help stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between return generation consistent with an appropriate level of risk, protecting asset values and matching liabilities. The investment strategy will be reviewed at least every three years to reflect the changing liability profile of the Fund. At the date of the 2016 actuarial valuation, based on the investment strategy below, the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of CPI +3.5% per annum. In setting the funding strategy a margin for prudence is taken on these expectations. As a result, for the 2016 valuation to achieve 100% funding a minimum return of CPI +2.2% per annum over 16 years has been assumed.

The Fund adopts a more prudent investment strategy for those liabilities where the employer has ceased to participate in the Fund or for certain admission bodies where there is no guarantee underpinning the liabilities.

4. Investment strategy and the process for ensuring suitability of investments

The long term nature of the liabilities means the Fund can allocate a larger weighting to higher expected returning assets (growth assets) which may introduce volatility in the short term but are ultimately expected to generate higher returns than the other assets in the long term. The investment strategy considers the expected risk-reward profile of each asset class and is flexible enough to take advantage of short term opportunities in its aim of achieving its strategic returns and fulfilling its fiduciary duty to members.

The Fund will, at all, times invest across a diversified portfolio of investments to reduce investment risk. 80% of the portfolio is invested in growth assets and is designed to generate capital growth. Stabilising assets make up 20% of the total portfolio and are designed to diversify the Fund's drivers of investment returns beyond those available from growth assets, and to generate a stable income stream. With the introduction of a Liability Risk Management Framework (LRMF), the Fund expects to increase the certainty of achieving sufficient returns to support the discount rate and approach to funding.

The strategic framework includes a target allocation against which strategic performance will be monitored. In addition, there are ranges for each asset category that allow limited deviation within the framework. The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing. Over the long term, the ability to periodically rebalance asset holdings to release cash will enable the Fund to effectively implement de-risking strategies such as the LRMF.

The Fund's asset strategy, along with an overview of the role each asset plays is set out in the following table. The upper bound of the permitted range represents the maximum percentage that can be invested in that asset class.

Asset Class	% of Fund	Permitted Range	Role within Strategy
Growth Assets	80%	65 - 85%	Growth assets are included in the portfolio to help generate returns designed to support the funding policy
<i>Equities</i>	<i>50%</i>	<i>45 - 55%</i>	Highest risk asset class, builds exposure to domestic and overseas companies, returns expected to outstrip fixed income, limited impact of inflation, comprises both passive and active approaches, with the latter designed to outperform the market.

Developed Market Equities	40%	35 - 45%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies'/income seeking, large and small market cap. Includes a UK SRI specific mandate.
Emerging Market Equities	10%	5 - 15%	Possess characteristics such as rapid growth, illiquidity premium, potential for large capital growth.
<i>Diversified Growth Funds (DGF)</i>	10%	5 - 15%	To provide an equity like return over the long term but with a lower level of volatility. Can include allocations to equities, bonds, cash and other assets (including through derivative exposure), which are dynamically managed. Expected to provide some downside protection in periods of equity market stress.
<i>Illiquid Growth</i>	20%	15 - 25%	Benefits from the 'illiquidity premium' where the Fund is compensated for locking assets up for a predetermined period.
Hedge Funds	5%	0 - 7.5%	Operates in a range of niche markets, looking to generate returns from unconstrained active management, and reduces the volatility of the Growth portfolio and increases diversification.
Property	10%	5 - 15%	Provides further diversification to Growth portfolio. Includes private markets exposure where returns are less correlated with listed markets, and where the Fund is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium to longer term.
Infrastructure	5%	0 - 7.5%	Investments in core infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term.
<i>Other Growth</i>	0%	0 - 5%	Leaves capacity for investment in other illiquid growth assets which seek to increase diversification across the portfolio.
Stabilising Assets	20%	15 - 35%	Stabilising assets provide some protection against liability risks
<i>Government Bonds</i>	0%	0 - 10%	Low risk of default, and can provide protection against the impact of changes in interest rates on the Fund's liabilities. Not currently held.
<i>Index Linked Bonds</i>	12%	9 - 15%	Index linked bonds provide a direct hedge against inflation risk.
<i>Corporate Bonds</i>	8%	4 - 20%	Corporate bond prices have credit risk of the issuer embedded within the price and are therefore considered higher risk than government issued securities and are expected to generate returns commensurate with this higher credit risk.
<i>Other Bonds</i>	0%	0 - 5%	Leaves capacity for investment in other debt instruments which seek to increase diversification across the portfolio.
Cash*	0%	0 - 5%	Cash is also exposed to credit risk and is generally a very low yielding asset. For this reason the Fund aims to be fully invested with cash retained only for operational/cash management purposes.

* Cash is separately accounted for and is invested in line with the Fund's Treasury Management Policy.

The Fund employs a number of external investment managers to deliver the investment strategy. This includes selecting active managers across equities, corporate bonds, DGFs, hedge funds, property and infrastructure mandates, where manager skill is expected to enhance the market return and manage risk, to a greater or lesser extent. Passive approaches aim to deliver the market return by replicating the index in a

cost and implementation efficient manner. An ‘enhanced indexation’ approach to managing equity portfolios aims to provide an incrementally higher return than the index but at a low risk relative to the index.

Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of the extent to which the investment manager’s approach is consistent with the Fund’s Responsible Investment (RI) Policy. Product structure and management costs will also be a factor.

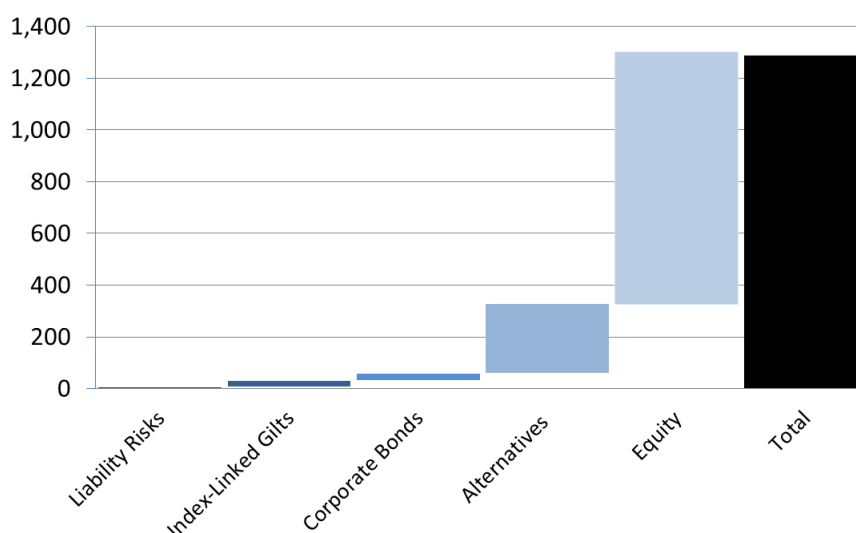
Details of the investment management structure can be found in Appendix 2.

5. Risk Measurement and Management

The risk and return profile of the assets will be measured against the strategic objective and be considered in the Fund’s capacity as a long term investor. The main risk to the Fund is the risk that the Fund’s assets do not produce the returns needed to meet the liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates, and their affordability.

The Committee recognises that, whilst investing in higher risk assets increases potential returns over the long-term, it also increases the risk of a shortfall in returns relative to that required to cover the Fund’s liabilities, as well as producing more short-term volatility in the funding position. The Fund’s diverse range of asset classes and approaches is designed to help achieve returns in a variety of market environments. By holding a range of assets across the portfolio that are not perfectly correlated, the Fund expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns.

The graph below provides an indication of the main sources of investment risk (estimated by the Fund’s investment consultants) that contribute to the volatility of the Fund’s funding position, as measured by a three year “value at risk” measure at the 5% level. In other words, if we consider a downside scenario which has a 1 in 20 chance of occurring, this would be the impact on the deficit relative to our “best estimate” of what the deficit would be in three years’ time.



Note: approximate analysis as at 30 September 2016, based on the Fund’s strategic asset allocation.

Each investment style/manager is assessed quantitatively and qualitatively within a monitoring framework designed to address any underperformance, highlight any inappropriate risk taking behaviour from individual managers and address factors that may impact the manager’s ability to achieve long term outperformance goals. The respective managers’ investment performance is monitored against three year performance targets, consistent with a longer term investment approach.

The following risks are also considered by the Committee:

(i) Governance Risk

This is the risk that Committee members do not have sufficient expertise to evaluate and challenge the advice they receive. The Fund recognises the importance of maintaining an appropriate level of knowledge across the Committee. It has taken steps to ensure that Committee members possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties by having a training framework in place which is based on CPIFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. Officers ensure the Committee receives expert advice to support strategic and implementation decisions. In addition, the Fund maintains a Risk Register that is regularly updated and monitored by the Committee.

(ii) Exchange Rate Risk

Foreign currency exposure is expected to be an unrewarded risk over the longer term. The Fund has a hedging programme designed to protect the sterling value of its hedged overseas investments and to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure for the Fund's developed market equity holdings, and a 100% hedge of currency risk for the infrastructure, property and hedge fund investments. This passive approach seeks to achieve this reduction in volatility in an efficient and cost effective way.

(iii) Liquidity Risk

The Committee recognises the inherent risk of holding illiquid assets that cannot be easily converted into cash. However, given the long-term investment horizon of the Fund it is appropriate to accept liquidity risk where the Fund expects to benefit from an 'illiquidity premium'. The majority of the Fund's assets are held in liquid instruments and realisable at short-notice.

(iv) Cashflow Risk

The Fund is becoming more mature and is slightly cashflow negative as payments to members exceed contributions. The investment strategy is structured to generate investment income to help manage these negative cash flows. Monitoring cash flow is critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy.

(v) Valuation Risk

The actuarial valuation assumes that the Fund generates an expected return equal to, or in excess of, the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to higher than expected increases in CPI, or if the assets do not deliver as expected. This risk is reduced by the diversified investment strategy the Fund employs, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring.

(vi) Longevity Risk

This is the risk that the members of the Fund live longer than assumed in the actuarial valuation model. This risk is captured within the funding strategy which is monitored by the Committee. Any increase in longevity will only be realised over the long term.

(vii) Regulatory and Political Risk

Across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to political uncertainty. These risks are managed by diversifying across markets and are monitored by reviewing the investment strategy and specific investment mandates.

(viii) Employer Covenant Risk

There is a risk that employers within the Fund withdraw or lack the financial capacity to make good their outstanding liabilities. This risk is addressed through a covenant assessment monitoring process, which annually assesses the financial standing of all Employers in the Fund and is considered when setting the Funding Strategy. In addition a more prudent investment strategy is adopted for certain admission bodies where there is no guarantee underpinning the liabilities.

(ix) Environmental, Social and Governance (ESG)

As ESG issues may be financially material to the Fund, the RI Policy sets out how the Fund will integrate ESG issues into its investment processes and ownership practices in the belief this can effectively mitigate the risks and positively impact investment performance.

6. Approach to Asset Pooling

The Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (the BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the BPP Ltd. is established the Fund, through the Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating assets to the portfolios provided by BPP Ltd.

The BPP Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular, it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of the Fund as a client. It includes a duty of care of BPP Ltd to act in its clients' interests.

An Oversight Board for BPP Ltd will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for BPP Ltd have been formulated to meet the requirements of the Regulations and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Bath & North East Somerset Council has approved the full business case for the BPP Ltd. It is anticipated that the Fund's assets will be transitioned to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan, it is envisaged that all of the Avon Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investments which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned. It is also recognised that the implementation of the Fund's LRMF, via BPP Ltd, will need to be carefully considered, when appropriate.

7. Environmental, Social and Corporate Governance (ESG) Policy

The Committee has a fiduciary duty to act in the best interest of the Fund's members. This includes managing Environmental, Social and Corporate Governance issues that may be financially material to the Fund. These ESG issues are central to the Fund's responsible investment beliefs, which are set out in the Fund's published [Responsible Investment \(RI\) policy](#), which supports the wider investment strategy. In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed.

The Fund seeks to integrate RI across its investment decision-making process for the entire portfolio. ESG issues considered when setting its investment principles and objectives include the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value.

As well as setting out the longer term framework, the RI policy identifies shorter term strategic priorities which are reviewed annually.

The Fund expects its investment advisors to proactively consider and integrate ESG issues when providing investment advice to the Fund. In addition, the Fund will assess the extent to which investment managers integrate ESG risks into their investment approaches.

The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.

Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.

Social Investments

Investments that deliver social impact as well as a financial return are often described as "social investments". Social investment includes a wide spectrum of investment opportunities. The Fund is consistent in the application of risk and return requirements when evaluating all investment opportunities including those that address societal challenges but generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy.

Sanctions

The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Forward guidance on ESG under pooling

BPP Ltd's Investment Principles clearly articulate its commitment and that of each underlying Fund, to be responsible investors and as such recognises that social, environment and corporate governance considerations are part of the processes in the selection, non-selection, retention and realisation of assets. One of the principal benefits, outlined in the BPP Ltd business case, expected to be achieved

through scale and resources arising from pooling, is the improved implementation of responsible investment and stewardship.

Each portfolio, in every asset class, under BPP Ltd, explicitly includes responsible investment which includes an assessment of how social, environmental and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives. For more information visit the [BPP Ltd website](#).

8. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund recognises that it has responsibilities as a shareholder, as well as rights, and is an active owner. The Fund believes that voting is an integral part of the RI and stewardship process. Voting is delegated to its investment managers; however, the Fund regularly monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, the Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings. The Fund retains the right to recall stock that has been lent out under its securities lending programme to enable voting.

The Fund is a signatory to the FRC UK Stewardship Code and has outlined its approach to stewardship, including voting and engagement, in its Statement of Commitment to the Code which can be found [here](#). The Fund has been evaluated by the FRC as Tier 1 compliant. A Tier 1 rating is defined as those signatories providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

The Fund publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity of its investment managers.

Forward guidance on stewardship under pooling

As part of BPP Ltd the Fund is actively exploring opportunities to enhance its stewardship activities. More information is on the [BPP Ltd website](#). Once established and fully operational the BPP Ltd will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Ltd Investment Principles.

Advice Taken

In preparing this statement, the Committee has taken advice from Fund Officers, the Fund's appointed investment consultant and the Client Officer Group at the Brunel Pension Partnership Project. The Fund's Pension Board will review all strategic documents including this Investment Strategy Statement.

Approved by Avon Pension Fund Committee on 24 March 2017

	Principle	Compliance	Explanation
Page 64	1 Effective Decision Making Administering Authorities should ensure that: <ul style="list-style-type: none"> • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	FULL	<ul style="list-style-type: none"> • A clear governance structure for decision-making across a wide scope of issues is in place • The Committee is supported by expert advisors and officers with clear responsibilities. • An Investment Panel has responsibility for specific investment decisions and implementation of strategic decisions • The role and responsibilities of all Committee members is set out in job descriptions. • Committee members are required to undertake training and a training log is maintained. • The Fund uses the CIPFA Knowledge and Skills Framework as the basis for its training programme. • The Fund has a forward looking three-year business plan which is monitored annually
	Clear Objectives An overall investments objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	FULL	<ul style="list-style-type: none"> • A clear investment objective and strategy is set out in the Statement of Investment Principles. • The actuarial position and financial impact on scheme employers and tax payers is taken into account when formulating the investment strategy. • The funding strategy reflects the differing covenants of scheme employers • The Fund has a customised benchmark reflecting the Fund's own liability profile. • The impact on return and risk of different asset classes is considered when devising the investment strategy. • The investment managers have individual performance targets and their performance against target is monitored by the Committee. • The Fund always obtains expert advice when considering its investment objective and strategy.
	3 Risk and Liabilities In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating local employers, the risk of their default and longevity risk.	FULL	<ul style="list-style-type: none"> • The investment objective and strategy reflects the specific liability profile of the scheme membership • The covenant of the employer and their ability to pay contributions is taken into account when setting contribution rates • The Fund has in place a risk management process to identify and monitor scheme employer related risks and report to Committee as required • The Risk Register identifies all significant risks to the Fund, action to mitigate the risk and action plan for Committee to consider

			<ul style="list-style-type: none"> The external auditor reports its assessment of the risk management process to the Committee.
4 Performance Assessment	FULL	<p>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</p>	<ul style="list-style-type: none"> The Fund measures the performance of the Fund against its investment objective and that of its investment managers against their specific performance benchmarks, over appropriate timeframes. Performance is monitored quarterly by the Committee and Investment Panel The performance of advisors the Fund is assessed on an on-going basis. The performance of the decision-making bodies is assessed by external auditors and through the Committee's Annual Report to Council on its activities and decisions taken during the year.
5 Responsible Ownership	FULL	<p>Administering Authorities should:</p> <ul style="list-style-type: none"> Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. Include a statement of their policy on responsible ownership in the statement of investment principles Report periodically to scheme members on the discharge of such responsibilities. 	<ul style="list-style-type: none"> The Fund requires its managers adopt the FRC UK Stewardship Code (replaced the Institutional Shareholders' Committee Statement of Principles) The Fund published its compliance with the FRC UK Stewardship Code in September 2016. The Fund's policy on responsible ownership is included in its Statement of Investment Principles The Fund has appointed a proxy voting agent to monitor the voting activities of the investment managers and report its findings to the Committee The Fund has a Responsible Investing Policy to address long term investment concerns and opportunities arising from social, environmental and governance issues. This includes the appointing and monitoring process of managers.
6 Transparency and Reporting	FULL	<p>Administering Authorities should:</p> <ul style="list-style-type: none"> Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives Provide regular communication to scheme members in the form they consider most appropriate 	<ul style="list-style-type: none"> Has a clear policy for communication and consultation with its scheme members, representatives and employers as appropriate. All documents and statements are publicly available and the Annual Report & Accounts contains information and data relevant to its many, diverse stakeholders. Regular meetings are held with investment managers, advisors, 3rd party investment administration suppliers to discuss service delivery and performance against objectives. Service level meetings are held with scheme employers to discuss service delivery. Administration and investment forums are held for scheme employers to inform employers of any issues that may impact their budgets, resourcing levels or employment obligations to staff.

Mandate List
Appendix 2

Manager	Mandate	Performance Objective	% of Fund	Inception date
<i>BlackRock</i>	<i>Passive multi-asset</i>	<i>In line with customised benchmark</i>	<i>29%</i>	<i>01/04/03</i>
<i>Jupiter Asset Management</i>	<i>UK Equities (Socially Responsible Investing active)</i>	<i>FTSE All Share +2% p.a.</i>	<i>5%</i>	<i>01/04/01</i>
<i>TT International</i>	<i>UK Equities (unconstrained active)</i>	<i>FTSE All Share +3-4% p.a.</i>	<i>5%</i>	<i>11/07/07</i>
<i>Invesco Perpetual</i>	<i>Global ex-UK Equities (Enhanced Indexation)</i>	<i>MSCI Global ex-UK Index +0.5% p.a.</i>	<i>6.5%</i>	<i>19/12/06</i>
<i>State Street Global Advisors</i>	<i>Europe ex-UK Equities (Enhanced Indexation)</i>	<i>FTSE World Europe ex-UK Index +0.5% p.a.</i>	<i>3.5%</i>	<i>14/12/06</i>
<i>State Street Global Advisors</i>	<i>Pacific inc. Japan Equities (Enhanced Indexation)</i>	<i>FTSE Developed Asia Pacific Index +0.5% p.a.</i>		<i>14/12/06</i>
<i>Schroders Investment Management</i>	<i>Global Equities (unconstrained active)</i>	<i>MSCI All World Index +2-4%</i>	<i>6%</i>	<i>01/04/11</i>
<i>Genesis Investment Management</i>	<i>Emerging Market Equities (unconstrained active)</i>	<i>MSCI Emerging Markets Index</i>	<i>5%</i>	<i>13/12/06</i>
<i>Unigestion</i>	<i>Emerging Market Equities (active)</i>	<i>MSCI Emerging Markets Index + 2% p.a.</i>	<i>5%</i>	<i>21/01/14</i>
<i>Standard Life</i>	<i>Diversified Growth Funds (active)</i>	<i>LIBOR + 4% p.a.</i>	<i>6.7%</i>	<i>04/02/15</i>
<i>Pyrford International</i>	<i>Diversified Growth Funds (active)</i>	<i>RPI + 5% p.a.</i>	<i>3.3%</i>	<i>14/11/13</i>
<i>JP Morgan Asset Management</i>	<i>Fund of Hedge Funds</i>	<i>The higher of LIBOR +3% or 6% p.a.</i>	<i>5%</i>	<i>13/07/15</i>
<i>Royal London Asset Management (RLAM)</i>	<i>UK Corporate Bond Fund (active)</i>	<i>iBoxx £ non-Gilt Index +0.8% p.a.</i>	<i>5%</i>	<i>11/07/07</i>
<i>Schroders Investment Management</i>	<i>UK Property (active)</i>	<i>IPD UK Pooled Property Fund Index +1% p.a.</i>	<i>5%</i>	<i>01/02/09</i>
<i>Partners Group</i>	<i>Overseas Property (active)</i>	<i>IPD Global Property Index +2% p.a.</i>	<i>5%</i>	<i>18/09/09</i>
<i>IFM</i>	<i>Infrastructure (active)</i>	<i>Gilts +2.5% p.a.</i>	<i>5%</i>	<i>30/09/14</i>
<i>Record Currency Management</i>	<i>Currency hedge (US\$, Yen and Euro equity exposure)</i>	<i>N / A</i>	<i>n/a</i>	<i>26/07/11</i>
Current Structure			100%	

APPENDIX 2 - Avon Pension Fund (the Fund) – draft statutory Investment Strategy Statement (ISS)

Summary of comments provided by the Local Pension Board (LPB) on the draft ISS and responses from the Fund

	LPB comment/recommendation	Fund response/proposal
1.	State the Funds compliance with DCLG ISS statutory guidance.	Regulatory compliance assessment completed and will be provided to LPB. All compliant with some areas of partial compliance where information on pooling is still to be determined.
2.	The drafting style and language used should be more accessible so to be fully understood by fund employers and fund members.	As this document represents the Investment Strategy of the Fund certain industry related terms are unavoidable but will seek to amend wording or provide appropriate additional explanation following the 2017 Investment Strategy Review. It is however a technical document and is drafted as a live document for decision makers who have appropriate knowledge.
3.	Governance structures, the process by which Funds within the Pool jointly procure services and how Administering Authorities are to hold BPP Ltd to account should be included when finalised	The ISS currently does explain the governance arrangements and makes reference to the role of the Oversight Board and the Client Group. Further detail around governance structures and processes of the Pool will be provided as and when they have been finalised. As a shareholder in BPP the Administering Authorities will have shareholder rights as determined by the Company legal documentation.
4.	The ISS should state the maximum the Fund will invest in particular types of investments and/or asset classes.	The asset ranges including the maximum are stated in the document. <u>It will be made clear that the upper bound of the permitted investment range stated on the table on page 3/4 of the ISS represents the maximum that can be invested in that asset class.</u>
5.	The Fund may wish to consider agreeing a process with adequate timeline to consult LPB and other stakeholders on statutory policy statements.	Draft policy documentation will first be presented to Pension Committee where key stakeholders are fully represented, followed by a consultation period (timescale TBD) with the LPB before final publication in the public domain. The ISS will be presented annually (as was the SIP) to Committee to review. It will be updated following any substantial changes as required (as was the SIP).
6.	The extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments should be stated.	It will be updated following the 2017 Investment Strategy Review
7.	The ISS should state clearly the Funds	<u>The wording will be amended to state the</u>

	targeted investment return and the medium and long-term rate of investment return required by the Fund to achieve 100% funding level.	<u>minimum expected return of CPI+2.2% and a 16 year time horizon to achieve 100% funding</u> , as per the 2016 triennial valuation. This will be updated with the results of the next triennial valuation.
8.	The current investment strategy should be reviewed prior to asset pooling and in light of the March 2019 triennial valuation.	The ISS states that the Investment Strategy will be reviewed at least every 3 years or sooner where there is significant change in markets. There is ongoing quarterly and annual monitoring of the strategy which enables the Committee to take advice as to whether a review is needed at any time.
9.	Clarity should be given around the percentage invested in different geographical and economical markets vis-a-vis developed and developing markets.	The Fund does not employ a strategy that allocates to sub-sets of developed and developing markets but instead will provide details of allocations to UK equities, developed overseas equities and emerging market equities following the 2017 Investment Strategy Review.
10.	Details of asset classes and investment instruments that the Fund has excluded or 'ruled out' should be offered.	The 2017 Investment Strategy Review will include discussion of the range of assets reviewed for potential inclusion in the portfolio.
11.	The Fund should state how it would respond to a significant increase in equity markets or a "black swan" event.	<p>Sect. 4 (Investment Strategy) of the ISS refers to the Funds ability to rebalance to switch from growth to stabilising assets and realise the profit opportunistically.</p> <p>Mercer provides a Value at Risk (VaR) analysis in Sect. 5 (Risk Measurement) that is designed to assess the impact of a downside event with a 5% probability of occurring on the Funds funding level.</p> <p>The Investments Strategy is designed to be a long term strategy and withstand volatility and various risk scenarios. In the light of such events occurring the Fund will review the long term strategy where appropriate.</p>
12.	The Fund should provide details of exclusions.	The Fund does not have an exclusion policy but instead seeks to manage such risks by incorporating the analysis of these risks in the investment decision making processes as set out fully in our Responsible Investing Policy
13.	Does the fund recall stocks lent out to exercise its voting rights?	<u>The statement will be amended to clarify that the Fund retains the right to recall stock to enable voting.</u>

APPENDIX 3 - The Investment Strategy Statement required by Regulation 7 must include:-

Requirements	Confirmation of Compliance
a) A requirement to invest money in a wide variety of investments	✓
b) The authority's assessment of the suitability of particular investments and types of investments	✓
c) The authority's approach to risk, including the ways in which risks are to be measured and managed	✓
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services	✓
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments	✓
f) The authority's policy on the exercise of rights	<p>✓</p> <p>Added the following wording to clarify Fund's position on recall of stock for voting purposes: "The Fund retains the right to recall stock that has been lent out under its securities lending programme to enable voting".</p>

More Specifically	Confirmation of Compliance
7 (2) (a) <ul style="list-style-type: none"> Must take proper advice 	✓
<ul style="list-style-type: none"> Must set out clearly the balance between different types of investments 	✓
<ul style="list-style-type: none"> Must identify the risks associated with their overall investment strategy 	✓

<ul style="list-style-type: none"> • Must periodically review their policy to mitigate against any such risks 	✓
7 (2) (b)	
<ul style="list-style-type: none"> • Must take proper advice 	✓
<ul style="list-style-type: none"> • Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target 	✓
<ul style="list-style-type: none"> • Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy 	<p>✓</p> <p>The ISS states that the Investment Strategy will be reviewed at least every 3 years or sooner where there is significant change in markets. There is ongoing quarterly and annual monitoring of the strategy which enables the Committee to take advice as to whether a review is needed at any time.</p>
7 (2) (c)	
<ul style="list-style-type: none"> • Must take proper advice 	✓
<ul style="list-style-type: none"> • Should clearly state their appetite for risk 	✓
<ul style="list-style-type: none"> • Should be aware of the risks that may impact on their overall funding and investment strategies 	✓
<ul style="list-style-type: none"> • Should take measures to counter those risks 	✓
<ul style="list-style-type: none"> • Should periodically review the assumptions on which their investment strategy is based 	✓
<ul style="list-style-type: none"> • Should formulate contingency plans to limit the impact of risks that might materialise 	✓
7 (2) (d)	
<ul style="list-style-type: none"> • Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance 	✓
<ul style="list-style-type: none"> • Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria 	✓

<ul style="list-style-type: none"> Set out the proportion of assets that will be invested through pooling 	<p style="text-align: center;">✓</p> <p>"It is envisaged that all of the Avon Pension Fund's assets will be invested through BPP Ltd."</p>
<ul style="list-style-type: none"> Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account 	<p style="text-align: center;">✓</p> <p>The ISS currently does explain the governance arrangements and makes reference to the role of the Oversight Board and Client Group. Further detail around governance structures and processes of the Pool will be provided as and when they have been finalised. As a shareholder in BPP Ltd. the administering authorities will have shareholder rights as determined by the company legal documentation.</p>
<ul style="list-style-type: none"> Set out the services that will be shared or jointly procured 	<p style="text-align: center;">✗</p> <p>As the ISS is kept under review it will be updated once this information is fully agreed by the pool.</p>
<ul style="list-style-type: none"> Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money. 	<p style="text-align: center;">✓</p> <p>As above. "It is envisaged that all of the Avon Pension Fund's assets will be invested through BPP Ltd."</p>
<ul style="list-style-type: none"> Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money 	<p style="text-align: center;">✓</p>
<ul style="list-style-type: none"> Submit an annual report on the progress of asset transfers to the Scheme Advisory Board 	<p style="text-align: center;">✓</p>
<p>7 (2) (e)</p> <ul style="list-style-type: none"> Must take proper advice 	<p style="text-align: center;">✓</p>

<ul style="list-style-type: none"> Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors 	<p style="text-align: center;">✓</p> <p>Compliant in that stakeholders are duly represented on Committee. The Fund publishes an RI policy, which considers non-financial factors in detail. Although the consultation period with LPB for the ISS was limited, future draft policy documentation will first be presented to Pension Committee, followed by a consultation period (timescale TBD) with the LPB before final publication in the public domain. The ISS will be presented annually (as was the SIP) to Committee to review. It will be updated following any substantial changes as required (as was the SIP).</p>
<ul style="list-style-type: none"> Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments 	<p style="text-align: center;">✓</p> <p>Non-financial factors in respect of investment decisions are detailed in the Fund's RI policy, which the ISS makes reference to throughout.</p>
<ul style="list-style-type: none"> Should not pursue policies that are contrary to UK foreign policy or UK defence policy 	<p style="text-align: center;">✓</p>
<ul style="list-style-type: none"> Should explain their approach to social investments 	<p style="text-align: center;">✓</p>
<p>7 (2) (f)</p> <ul style="list-style-type: none"> Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments 	<p style="text-align: center;">✓</p>

<ul style="list-style-type: none"> Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code 	✓
<ul style="list-style-type: none"> Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f) 	<p>✓</p> <p>The Fund instructs its managers to vote on its behalf and in line with their own voting policies. The ISS specifically states “Voting is delegated to its investment managers; however, the Fund regularly monitors how its investment managers undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, the Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings”.</p>
<ul style="list-style-type: none"> May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority 	<p>✓</p> <p>The Fund employs the services of a third party to produce reports that monitor and benchmark voting activity and report this annually to Committee.</p>
<ul style="list-style-type: none"> Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations 	✓

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Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	23 May 2017	AGENDA ITEM NUMBER
TITLE:	Avon Pension Fund Service Plan Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Hyperlink to : 2017 – 20 Service Plan and Budget (including 5 Appendices) http://www.avonpensionfund.org.uk/pensions-administration		

1 THE ISSUE

- 1.1 The purpose of this report is to present to the Board the 3 Year Service Plan and Budget for the Pension Fund for the period 1 April 2017 to 31 March 2020.
- 1.2 The service Plan was presented and approved by the Pension Fund Committee in March and details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

- 2.1 That the Board notes the 3 Year Service Plan and Budget for 2017-20 for the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.
- 3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2017-20

- 4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three year budget supports the objectives and actions arising from the plan

including work relating to the investment strategy, risk management and compliance and improvements in the administration of the Fund.

4.2 The main focus of this plan is as follows:

- (i) To fully engage in the development and implementation of pooled funds in the interest of the Avon Pension Fund; ensure local governance arrangements are in place to accommodate pooling.
- (ii) to continue implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth;
- (iii) undertake a review of investment strategy to ensure its consistent with updated cashflows post valuation and investment returns expectation.
- (iv) to continue to support the requirements of Pension Boards

4.3 Full details of the 2017- 20 Service Plan are included in the Annex. Appendix 3 of the Service Plan shows the new medium term targets for 2017-20

5 BUDGET FOR 2017-20

5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2017 are included as **APPENDIX 4A** to the Service Plan. A commentary on the budget is given in **APPENDIX 4B**.

5.2 The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include governance and compliance expenses which are a consequence of the Fund's policy response to regulations and investment strategy. The budget also includes the estimated costs of the pension board. The LGPS regulations require the costs of local pension boards to be met by the local fund.

5.3 The budget approved for Administration in 2016/17 was £2,657,200. In the proposed budget for 2017/18 this has been increased to £2,706,300. The budget includes the transfer of resources from the salaries budget to the Central Allocated Costs budget reflecting the transfer of Financial Systems staff to the Council's Financial Systems Team in order to promote efficiency. The reduction in the salaries budget is partly offset by the pay award and full year effect of the restructure of the Administration team. Year on year savings approved in the 2015/16 budget will continue to be invested in the IT Strategy to further develop use of digital technology. Some expenditure on the IT strategy has been deferred to 2018/19 to await developments in the product offer from the IT systems supplier. Within Governance and Compliance the compliance budget is reduced as the cost of the Triennial Valuation falls out. The budget for Independent Members in 2018/19 includes the costs of recruitment that were previously budgeted for in 2016/17, but not used. Wherever possible inflation has been absorbed.

5.4 The inclusion of the three year cash flow forecast reflects the need to monitor the Fund's cash flow since it ceased to be continuously cash flow positive. The close monitoring of the Fund's cash flow position is a vital tool in the management of the cash that is achieved through its investment strategy.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are detailed in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact persons	Budget – Martin Phillips, Finance & Systems Manager (Pensions) (01225 395259) Service Plan – Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Investments Manager (01225 395306)
Background papers	Various Accounting Records

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Bath & North East Somerset Council	
MEETING:	LOCAL PENSION BOARD
MEETING DATE:	23rd May 2017
TITLE:	PENSION FUND ADMINISTRATION – COMPLIANCE REPORT (1) SUMMARY PERFORMANCE REPORT TO 31 MARCH 2017 (2) PERFORMANCE INDICATORS TO 31 MARCH 2017 (3) TPR COMPLIANCE
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Membership data</p> <p>Appendix 2 – KPIs and Caseloads</p> <p>Appendix 3 – Employer Performance</p> <p>Appendix 4 – TPR Data Improvement Plan</p> <p>Appendix 5 – Late Payers Schedule</p> <p>Appendix 6 - Retirement customer service questionnaire results</p> <p>Appendix 7 – Employers’ Conference 2017 feedback</p>	

1 THE ISSUE

- 1.1** The purpose of this report is to inform the Pension Board of performance figures for Fund Administration for the three months to 31 March 2017.
- 1.2** Further to the introduction of The Pension Regulator (TPR) Code of Practice 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, this report includes progress on the TPR Data Improvement Plan and levels of employer compliance.

2 RECOMMENDATION

The Board is asked to note:

- 2.1** Membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 31 March 2017
- 2.2** Progress and reviews of the TPR Data Improvement Plan

3 FINANCIAL IMPLICATIONS

- 3.1** There are no direct implications related to this report as it is an information report.

4 MEMBERSHIP TRENDS

- 4.1** Appendix 1 provides a detailed breakdown of employer/member ratio and split between whole time and multiple employment membership as well as a snapshot of individual employer and member make up. The increasing number of new smaller employers to the Fund as part of the fragmentation of the employer base (newly created Academies and Transferee Admitted Bodies) has a direct impact on the administration workload with increased movement between employers, especially within the education sector. Continued development of data reporting going forward will enable further understanding of the demographic nature of employer type and associated member make up as employers continue to evolve.

5 LATE PAYERS

- 5.1** The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.
- 5.2** The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.
- 5.3** Appendix 5 reports late payers in the period to 31st March 2017. There were a small number of late payments in the reporting period, none of which were of material significance and therefore recorded internally but not reported to TPR. The Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

6 EMPLOYER PERFORMANCE

- 6.1** The leaver form checking process continues, immediately flagging employer data submission errors and omissions. It also addresses any issues at point of receipt enabling a prompt communication back with employers where necessary.
- 6.2** During the period from 1 January to 31 March a total of 1,768 leaver forms were received with an average error rate of 33.10%. This is a disappointing result considering the amount of work that has been put into employer engagement and training.
- 6.3** Sample of errors for March Leaver Forms

Employer	Leaver Forms Received	Number in Error	%
BANES Council	91	30	33
Bristol Council	137	34	25
North Som Council	72	17	23
South Glos Council	90	18	20
Academies	178	96	54
Further Education	177	59	33
Other	40	22	55

- 6.4** A review has now started to cover the following areas:

- (1) Review of the leaver form process to see if efficiencies can be made in terms of processes for APF and ease of completion for the employer
- (2) Analysing the data from Year End, TPR and Leaver forms with the aim of targeting poorly performing employers and setting up Data Improvement Plans. More information will be available for the next meeting
- (3) A series of employer forums has been arranged and it is planned to seek employer feedback on training and support provision by APF.

7 AVON PENSION FUND ADMINISTRATION PERFORMANCE

7.1 Key Performance Indicators for the 3 months to 31 March 2017.

7.2 The information provided in this report is based on the Avon Pension Fund's Service Level Agreement which falls in line with the industry standards set out by the LGPC & used in CIPFA benchmarking. All standards fall within the regulatory guidelines set out in The Occupational & Personal Pension Schemes (Disclosure of Information) Regulations 2015 which require provision of information to members.

7.3 Full details of performance against target, in tabular and graph format, are shown in Appendix 2.

7.4 Following completion in November 2016 of the strategic project to overhaul Task Workflow a new suite of report extracts have been written and introduced to measure SLA standards for processing administration tasks. At the same time new RAG reporting standards have been set, replacing those previously in use which were deemed inconsistent. The new reports have flagged a high proportion of internal performance as being below standard. This can be evidenced by limited workforce availability and high volume of workload during the reporting period. Work targets are being set to improve performance over the coming months and the appointment of additional officers following the administration restructure should reflect an improvement of KPI's in future reports. A further enhancement is being made to the report to show the spread of performance over various time scales eg 5 to 10 days, 11 to 15 days etc, which will provide more meaningful data. This will be available from the autumn onwards.

7.5 Admin Case Workload

7.6 The level of work outstanding from tasks set up in the 3 month period is reported in Appendix 2 Annex 1 & 2 by showing what percentage of the work is outstanding. As a snapshot, at 31 March 2017 there were 7,728 cases outstanding of which 72% represents actual workable cases and 28% represents cases that are part complete, pending a third party response.

7.7 The increase in workable cases is due to a combination of events:

- The checking of leaver forms continues on the Member Services Team meaning that the Team have less resource available to work on other outstanding cases.
- Following the restructure the Member Services Team have 1x vacant post at Senior Pension Officer level. However appointments have now been made to fill 3x at Pension Officer and 1x at Assistant Pension Officer level.

- The volume of incoming work has increased further following the issue of member lists to all employers requesting they cleanse their data for this year end and send outstanding starter and leaver information.
- The overall outstanding cases remains high due to app 2,000 linking tasks set up in September 2016. A process for dealing with all new linking cases has been rolled out to the Member Services Team and a monthly report will now be run to pick up new cases. The 2,000 cases include the remaining backlog of cases built up between April 2014 and September 2016 which were not cleared as part of the project. Heywood only updated Altair to allow correct processing of these cases in May 2016.

8 YEAR END / BREACHES

8.1 Year End 2015/16 employer breaches

8.2 Of the 31 employers who breached the data queries exceeding 10% of membership levels set by the APF 29 have undertaken the bespoke training workshop to improve performance. Data Improvement Plans have been issued to all of them asking for their commitment to improve their data at this Year End. The penalty fine (£250) has been issued to the two remaining employers (St Ursula's Academy and Greenfield Academy – both EACT) who did not attend the training together with notification that they will be reported to TPR if continue to breach TPR Code. The breaches control spreadsheet has been updated according to the employer's response. All fined employers have been closely monitored during the year end process to ensure they are meeting the requirements of their Data Improvement Plan. Year End data has now been received and a report on progress will be provided at the next meeting.

8.3 The above breaches are not considered material breaches. They will be reported to the Pensions Board and Pensions Committee, but are not considered of a significant nature to be reported to the Pensions Regulator. However the possibility of reporting employers to The Pension Regulator was explained at the training sessions.

8.4 The number of breaches for 2015/16 was significantly lower than previous years, indicating that promotion to all employers of their Year End responsibilities, the breaches policy, potential penalty fines as well as training opportunities and support from APF are proving effective.

8.5 Contact has been made with William Fox (Head of Tax and Treasury) of ISS Mediclean on 7th April and they have committed to work with us and resolve all the outstanding issues and agreed to sign the DIP. To date they have sent their LGPS53 and submitted their year-end data for 2016/17 on 24/4/2017, however this is yet to be checked and loaded. They have also paid £1,000 of the £1,250 fines. Progress is definitely being made and the lines of communication are now open with them.

Bristol City Council (the outsourcing employer) have been made aware of the issues with ISS Mediclean however they have not reported to the Fund any action they may have taken.

8.6 Year End 2016 / 17

- (1) All year end spreadsheets were issued by 31 March with a deadline for returns of 2 May. An update will be provided at the next meeting.

9 CUSTOMER FEEDBACK – RETIREMENT QUESTIONNAIRE

- 9.1** Appendix 6 highlights the 25 responses to the online survey for retirees. In summary, 72% of respondents indicated that they were very satisfied (55%) or fairly satisfied (17%) with service they received from the Avon Pension Fund.
- 9.2** We are continuing to explore ways to gather more customer feedback and will report back to the Board on progress.

10 TPR DATA IMPROVEMENT PLAN

- 10.1** A summary of the Data Improvement Plan as at 31 March 2017 is shown below with a comprehensive breakdown attached in Appendix 4.

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
Actives	1,264	52	407	909	99.79%
Deferreds	4,774	86	219	4641	98.87%
Pensioners	82	2	5	79	99.96%
Dependants	53	0	24	29	99.91%
Total	6173	140	655	5658	99.63%

11 EMPLOYERS' CONFERENCE 2017 FEEDBACK

- 11.1** The annual conference for all Avon Pension Fund scheme employers took place on 28 February 2017 in Bristol and attracted almost 100 attendees (with 75 employer attendees). It was one of the best attended events in recent years. Guest speakers from the Scheme Advisory Board, Government Actuary Department and the Pensions Regulator attended and gave presentations.
- 11.2** Feedback forms were requested to be completed by attendees. A summary of these are attached as Appendix 7.
- 11.3** Overall the feedback continues to be positive and the event, guest speakers, topics covered and facilities were well received. Comments about improvements or suggestions for the event are gathered and fed into future events.

12 EQUALITIES

- 12.1** No items in this report give rise to the need to have an equalities impact assessment

13 CONSULTATION

- 13.1** None appropriate

14 ISSUES TO CONSIDER IN REACHING THE DECISION(S)

- 14.1** There are no issues to consider not mentioned in this report.

15 ADVICE SOUGHT

- 15.1** The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

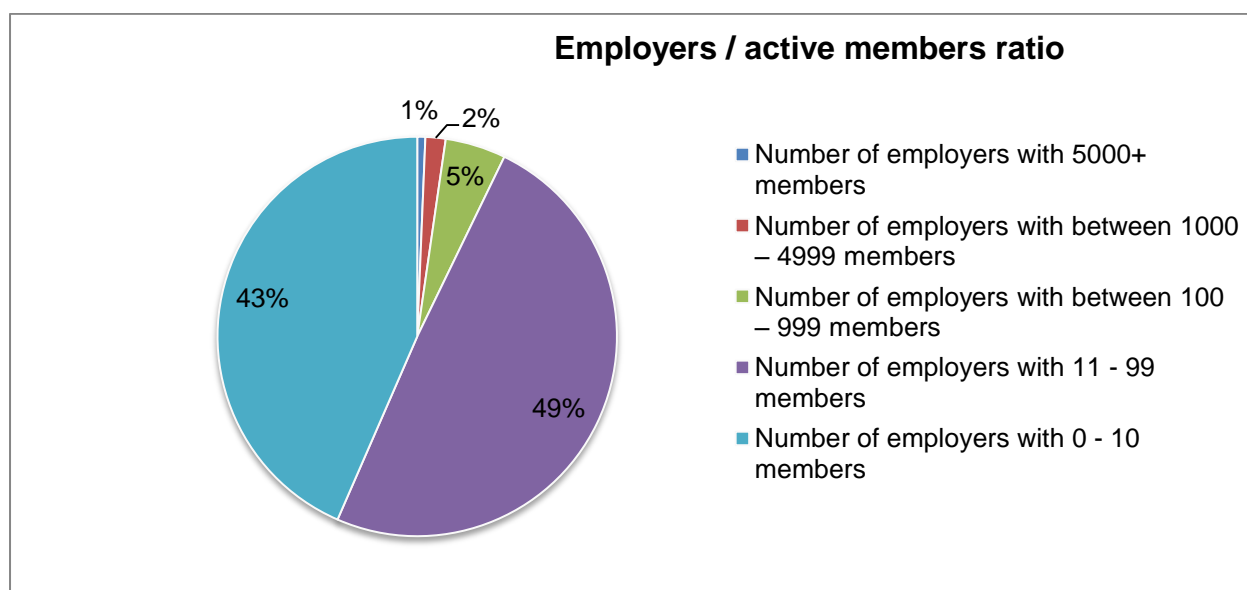
Contact person	Geoff Cleak, Pensions Manager Tel: 01225 395277
Background papers	Various statistical documents
Please contact the report author if you need to access this report in an alternative format	

Annex 1 - **Active membership**

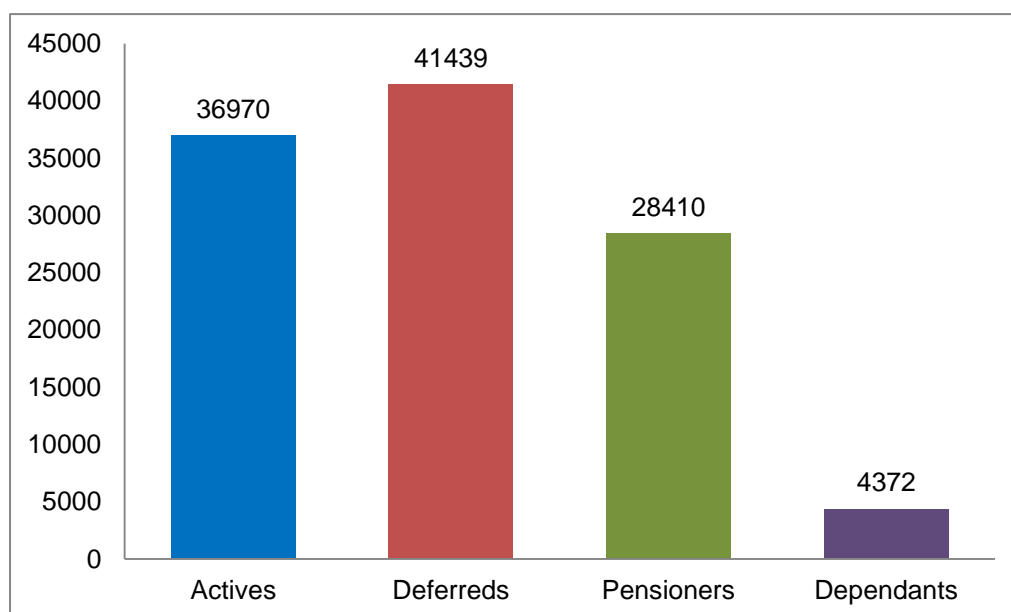
Total Active Members	29,833
Total Active Records	36,700
Total Active Members with more than 1 active record	3,221

Annex 2 - **Employers / active member ratio**

Employers / active members ratio	
Number of employers with 5000+ members	2
Number of employers with between 1000 – 4999 members	5
Number of employers with between 100 – 999 members	16
Number of employers with 11 - 99 members	147
Number of employers with 0 - 10 members	116
Total	286



Annex 3 – **Total number of member records by type – as at 31 March 2017**

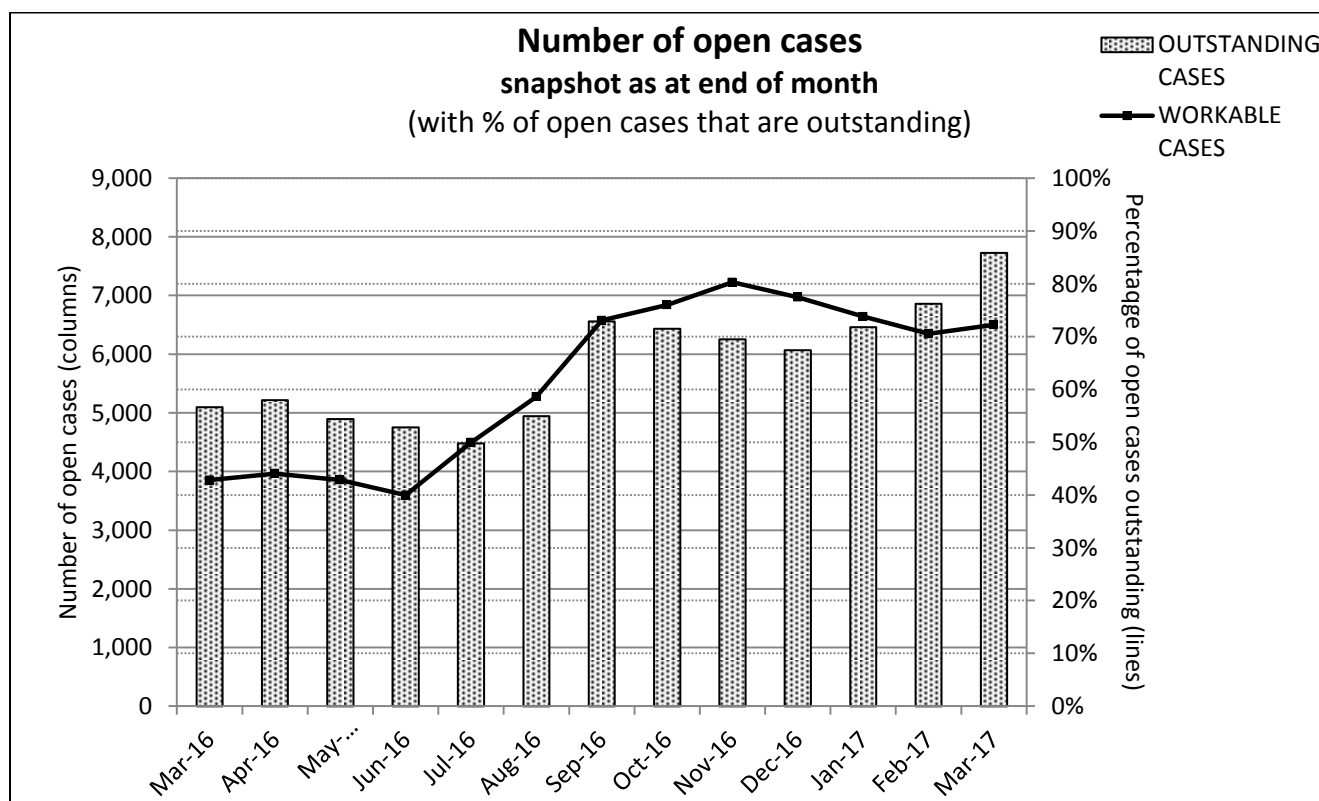


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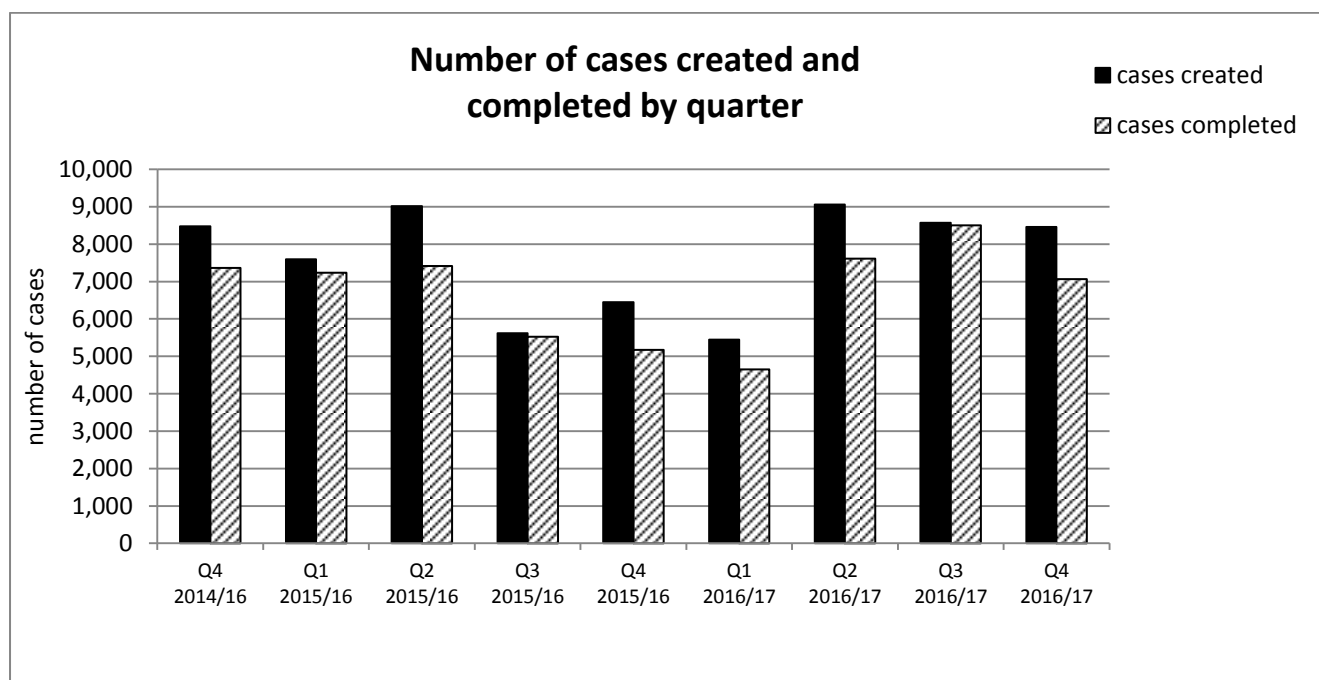
SLA standards for processing admin tasks		3 months to 31/12/16	Average days to process	2015/16 actual	2016/17 target	RAG	Periods ago			Trend	Notes
							1	2	3		
Retirement (from Active)	Quote - 5 days	56.21%	11 days		100%	R	R			▲	290 cases 163 within target
	Payment - 5 days	53.65%	14 days		100%	R	R			▲	274 cases 147 within target
Retirement (from Deferred)	Quote - 30 days	38.81%			100%	R	R			▲	67 cases 26 within target
	Payment - 5 days	70.70%			100%	R	R			▲	157 cases 111 within target
Deaths	Notification - 5 days	81.90%	4 days		100%	A	A			◆	116 cases 95 within target
	Payment - 5 days	19.13%	16 days		100%	R	R			▼	115 cases 22 within target
Refund of contributions	Quote - 5 days	62.45%			100%	R	R			▲	687 cases 429 within target
	Payment - 10 days	78.59%			100%	A	R			▲	327 cases 257 within target
Deferreds (early leavers)	20 days	5.92%			100%	R	R			▲	355 cases 21 within target
Transfers In	Quote - 10 days	17.57%			100%	R	R			▲	74 cases 13 within target
	Payment - 10 days	0			100%						No cases processed in period
Transfers Out	Quote - 10 days	11.11%			100%	R	R			▲	216 cases 24 within target
	Payment - 10 days	32.26%			100%	R	R			▼	31 cases 10 within target
Estimates	10 days	N/A			100%						No data available at present
Year End data from employer	by 30 June	0		95%	100%		G				N/A this period
Issue ABS	by 31 August	0		96%	100%		G				N/A this period
Notify scheme changes	within 3 months	0		100%	100%		G				N/A this period
Issue Active newsletter	2 per year	0		2	2		G				None issued this period
Issue Pensioner newsletter	1 per year	0		1	1		G				None issued this period
Other performance standards											
Retirements survey - satisfaction %		72%			65%		G				New survey implemented
% of employers signed up to submit data electronically (ESS/iConnect)		66%		58%	70%		G				
% of active membership covered by ESS/iConnect		98%		72%	90%		G				
% of all members with electronic access (MSS)		15%									No annual target set
% of active members with electronic access (MSS)		19%									No annual target set

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Annex 2

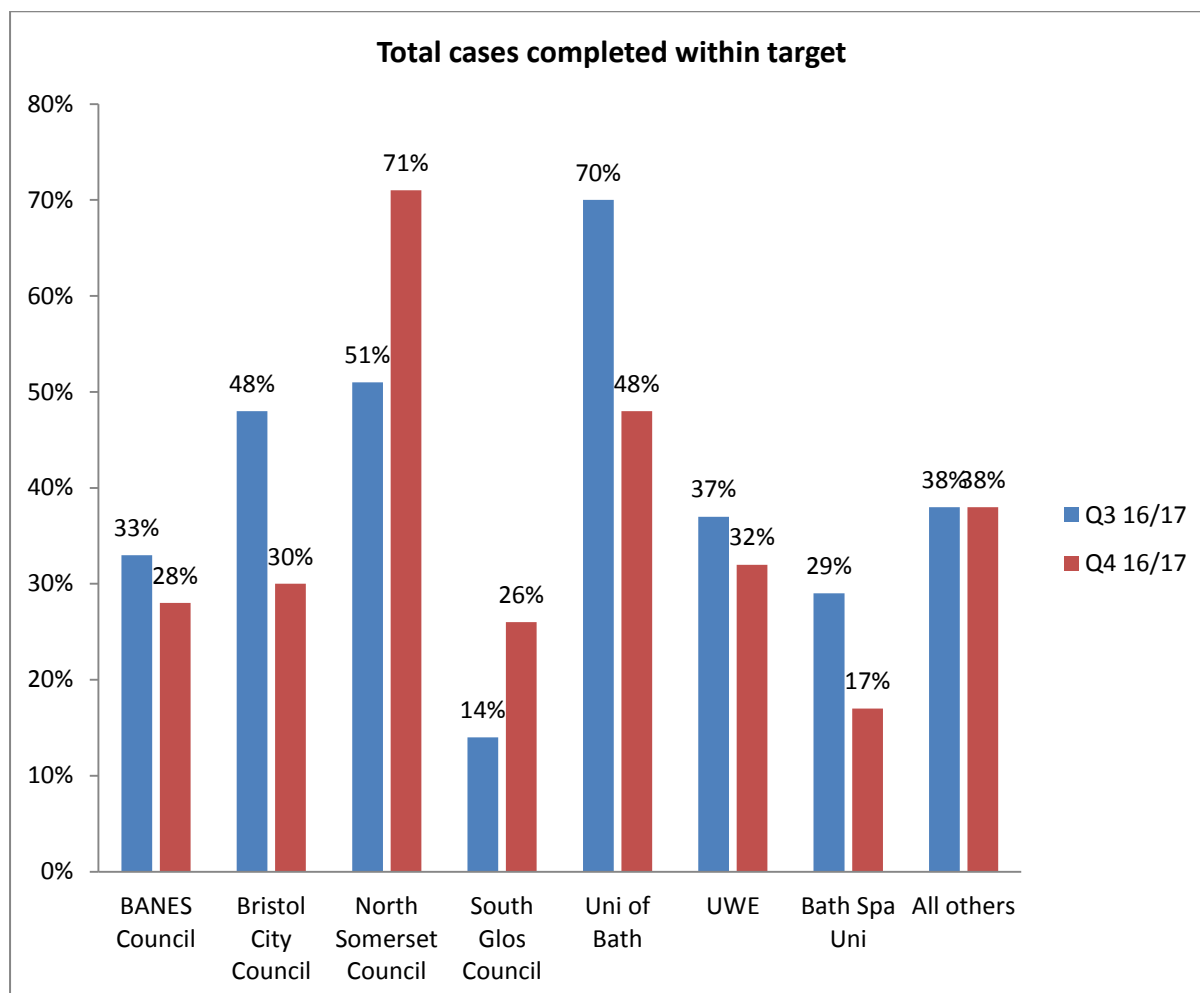


Annex 3



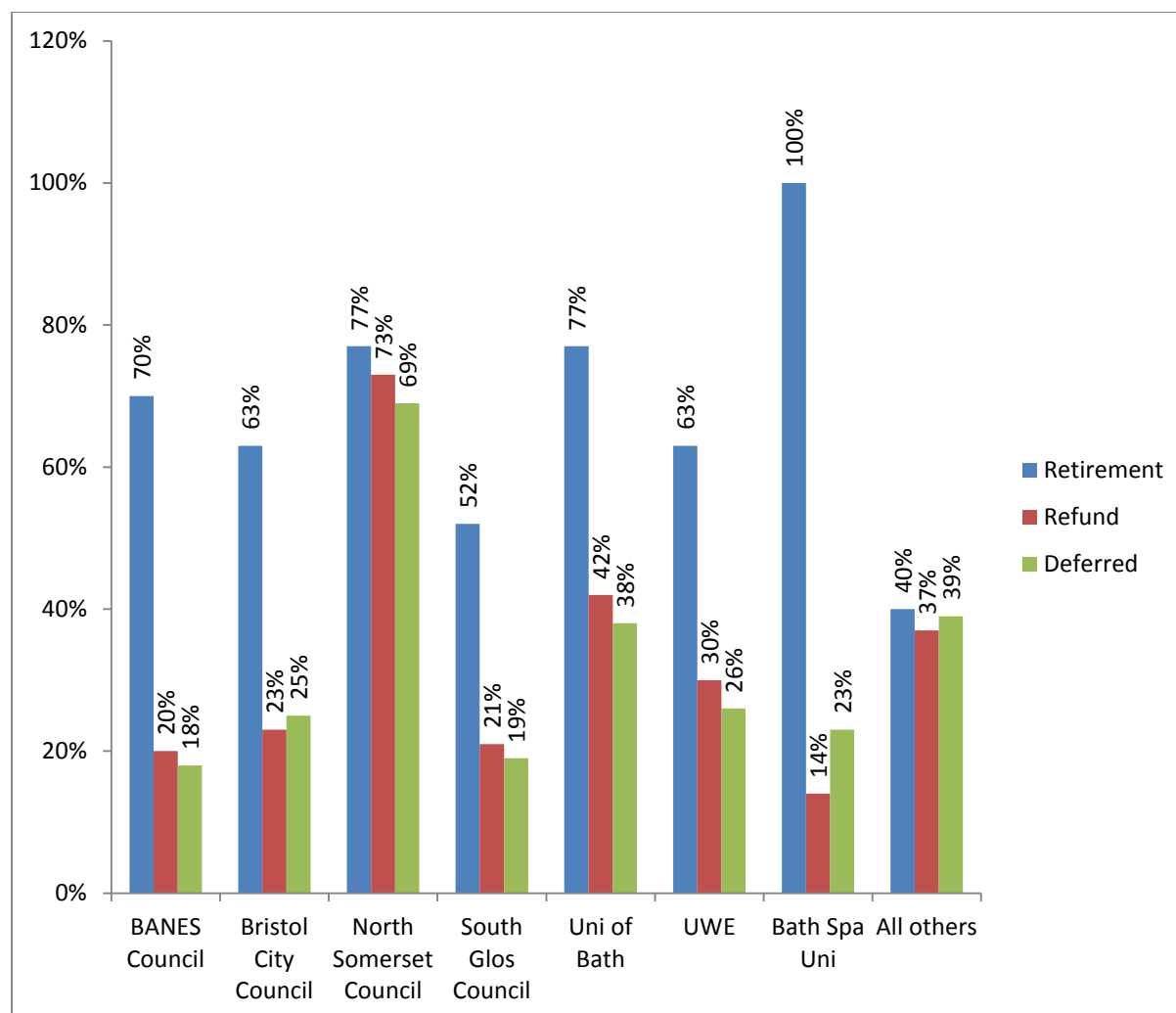
Employers completing leaver forms for retirements, refunds and deferments within SLA targets.

Annex 1 – Total cases - Percentage and number of cases completed within target.



	Q3 16/17		Q4 16/17	
	%	Cases	%	Cases
BANES Council	33%	56	28%	37
Bristol City Council	48%	159	30%	103
North Somerset Council	51%	93	71%	100
South Glos Council	14%	42	26%	60
Uni of Bath	70%	28	48%	31
UWE	37%	43	32%	58
Bath Spa Uni	29%	17	17%	15
All others	38%	164	38%	201

Annex 2 – Breakdown by case type within target

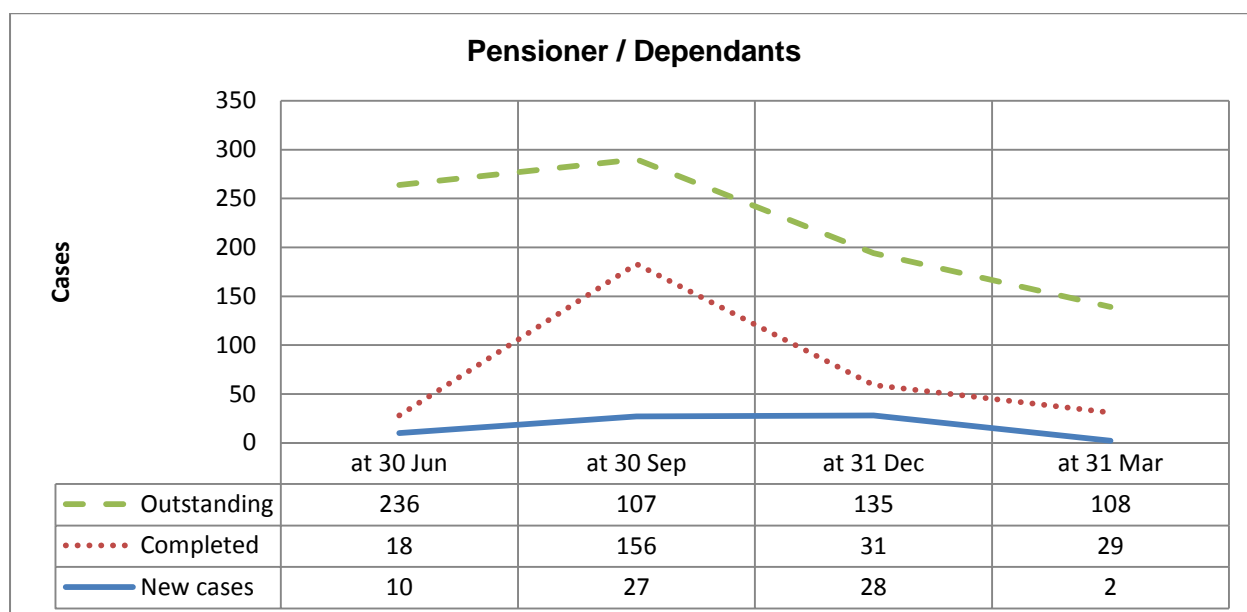
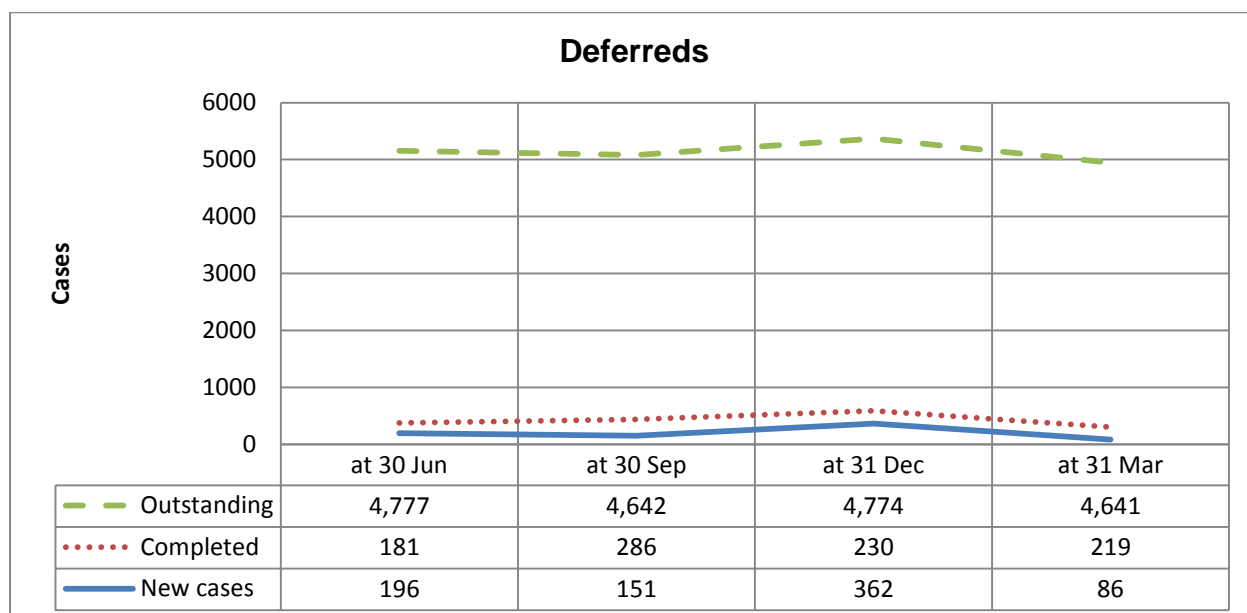
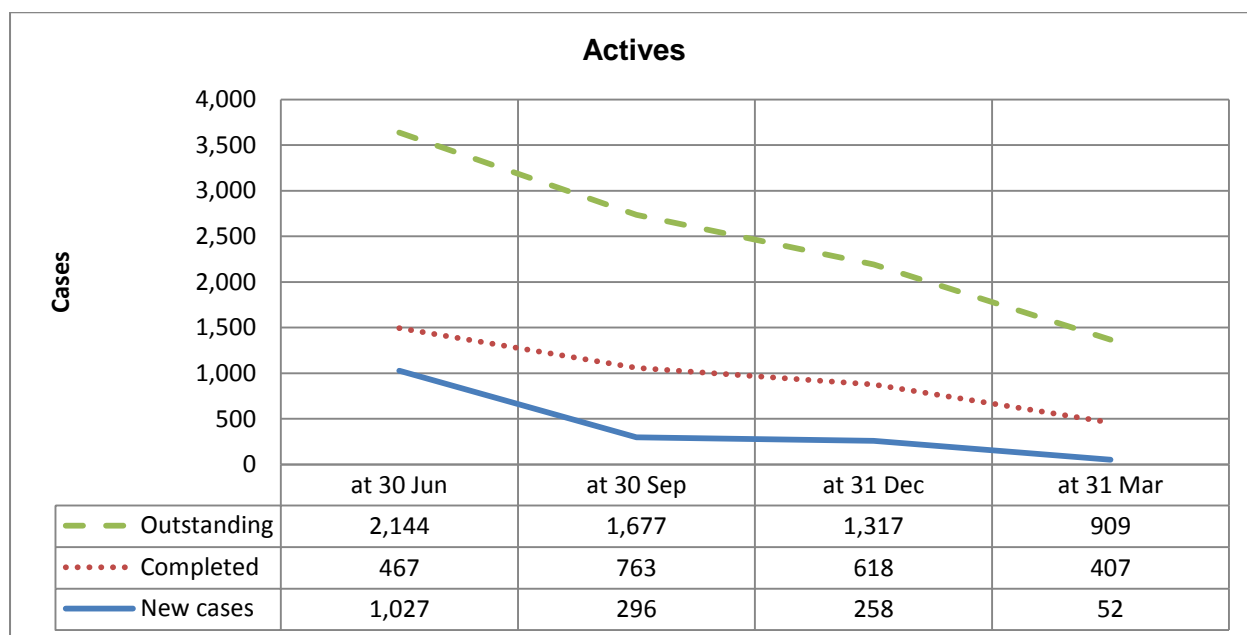


Within target	Retirement		Refund		Deferred	
	%	No. of Cases	%	No. of Cases	%	No. of Cases
BANES Council	70%	16	20%	9	18%	12
Bristol City Council	63%	32	23%	29	25%	42
North Somerset Council	77%	10	73%	32	69%	58
South Glos Council	52%	24	21%	13	19%	23
Uni of Bath	77%	10	42%	11	38%	10
UWE	63%	12	30%	29	26%	17
Bath Spa Uni	100%	1	14%	8	23%	6
All others	40%	29	37%	68	39%	104

Annex 1 – Data

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
ACTIVES					
36,761					
Addresses	353	19	28	344	99.064%
Forename	2	1	3	0	100.00%
Surname	0	0	0	0	100.000%
Date of birth	5	2	1	6	99.984%
NI number	53	3	46	10	99.973%
Title	1	3	1	3	99.992%
Sex mismatch	9	10	7	12	99.967%
Format of hours	4	9	13	0	100.000%
Date joined Fund missing	0	0	0	0	100.000%
Payroll ref missing	27	5	13	19	99.948%
Casual hours missing	361	0	214	147	99.600%
Leaver forms missing	449	0	81	368	98.999%
Total	1,264	52	407	909	99.79%
DEFERREDS					
41,265					
Addresses	4,110	37	7	4140	89.967%
Forename	1	0	1	0	100.00%
Surname	0	0	0	0	100.000%
Date of birth	2	1	2	1	99.999%
NI number	1	48	1	48	99.884%
Title	0	0	0	0	100.000%
Sex mismatch	0	0	0	0	100.000%
Format of hours	0	0	0	0	100.000%
Date joined Fund missing	0	0	0	0	100.000%
Historic refunds	660	0	169	491	98.905%
Total	4,774	86	180	4680	98.87%
PENSIONERS					
28,317					
Addresses	78	1	0	79	99.960%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	0	0	0	0	100.000%
NI number	1	1	2	0	100.000%
Title	0	0	0	0	100.000%
Sex mismatch	3	0	3	0	100.000%
Total	82	2	5	79	99.96%
DEPENDANTS					
4,454					
Addresses	31	0	2	29	99.907%
Forename	0	0	0	0	100.000%
Surname	0	0	0	0	100.000%
Date of birth	0	0	0	0	100.000%
NI number	22	0	22	0	100.000%
Title	0	0	0	0	100.000%
Sex mismatch	0	0	0	0	100.000%
Total	53	0	24	29	99.91%

Annex 2 - Quarterly performance charts



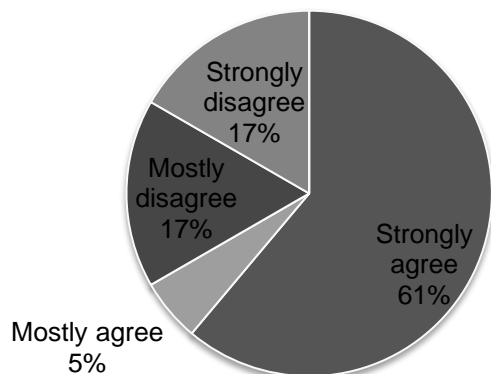
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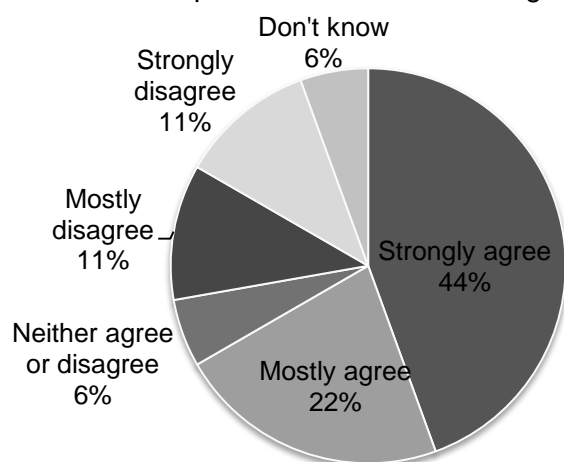
25 responses

Q1 To what extent do you agree or disagree that the Avon Pension Fund ...

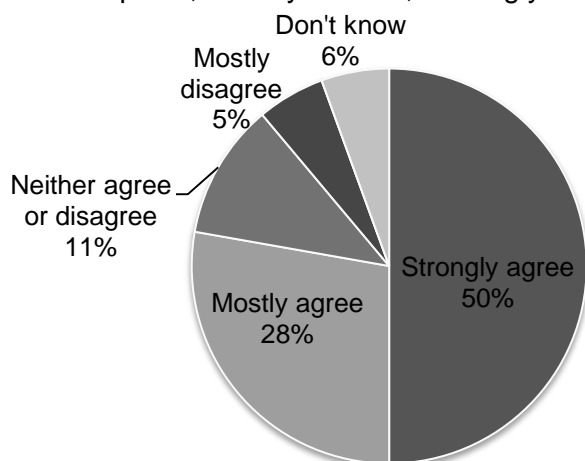
kept you informed about your retirement and gave accurate and complete information on time



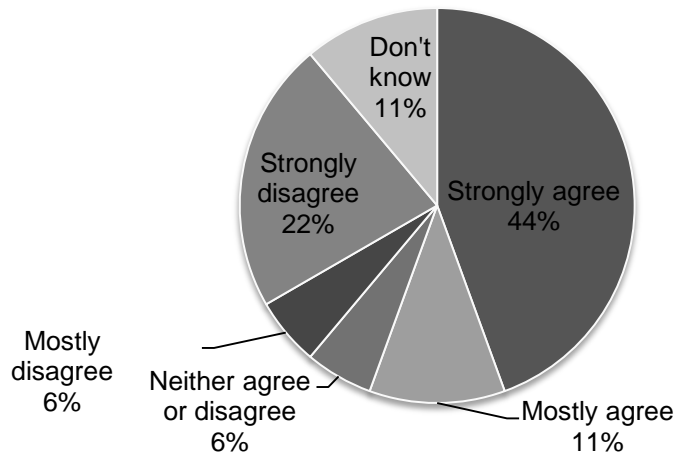
were professional and knowledgeable



had a polite, friendly attitude, treating you with respect

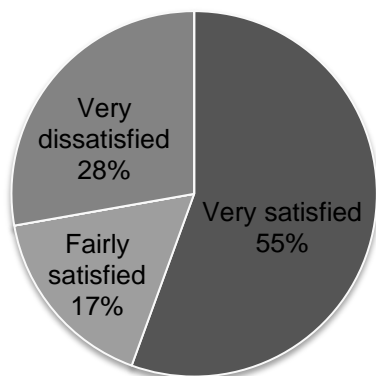


answered any questions or issues that you had



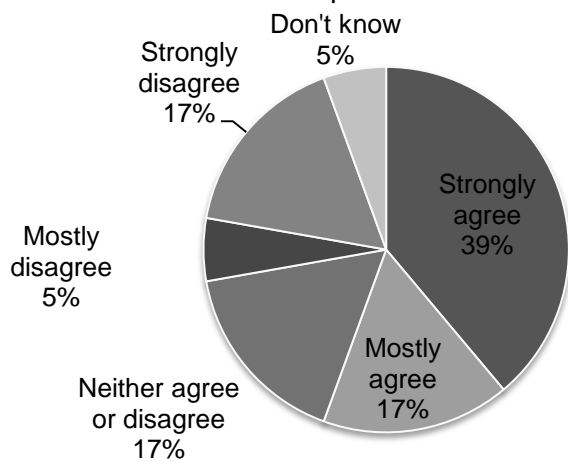
Q2 Overall, how satisfied are you with service you received from the Avon Pension Fund?

Overall, how satisfied are you with service you received from the Avon Pension Fund?

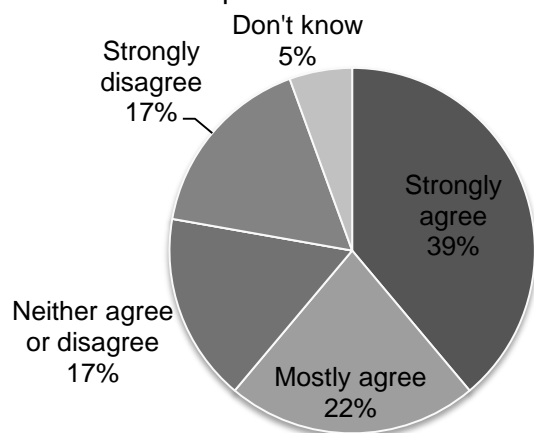


Q3 To process your retirement efficiently and on time we require timely and accurate information from your former employer. To what extent do you agree or disagree that your former employer...

kept you informed about your retirement and gave accurate and complete info on time



delivered what they promised and dealt with any problems that arose



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Below is a short summary of the feedback results from the event, which took place at the MShed Museum, Bristol on 28 February 2017.

- 45 employer organisations attended (16% of total)
- 75 employer attendees
- 64% of attendees completed feedback forms (48 forms)

*Figures in brackets () refers to the number of responses. **Bold** highlights indicate top rating.*

Q1 Overall how was the length of the conference?

- **Just about right 83.3% (35)**
- Too long 14.3% (6)
- No reply 2.4% (1)

Q2 What did you think of the following elements?

- Review of the year – 37.5% (18) rated it as Excellent or Good. Neutral 56.3% (27)
- **Administering the Scheme – 83.4% (40) rated it as Excellent or Good**
- The Pension Regulator – 62.5% (30) rated it as Excellent or Good. Neutral 35.4% (17)
- Open Forum – 58.3% (28) rated it as Excellent or Good. Neutral 39.6% (19)
- Scheme Advisory Board – 84.8 % (41) rated it as Excellent or Good
- GAD – 73.9% (34) rated it as Excellent or Good. Neutral 23.9% (11)

Q3 What did you think of the venue?

- Location – **93.9%** rated it as Excellent or Good
- **Facilities – 98.2% rated it as Excellent or Good**
- Refreshments – **93.8%** rated it as Excellent or Good

Q4 Are there any areas you'd like us to cover (training events, forum or next conference)

- TPR seemed to focus on responsibilities of APF – more focus on employers
- Regular newsletter would encourage a more proactive approach from employers
- Exit payments – new complexities. Transfers In and Out
- We will be in touch on members clinic
- An academies forum would be good
- Hold one day course for new HR/Pensions Managers as soon as possible
- Simple clarification of academy duties
- Fund performance & future expectations and potential impact on employer costs + employer benefits

Q5 *Any other comments?*

- Can it be a half day conference
- Training on live data would help
- Thank you for an interesting day – found it useful. Session by Jeff Houston excellent, but all informative and appreciate effort that everyone gives to make conference happen
- Interesting to hear about restructure. Speakers were interesting and informative
- TPR presentation felt as if it was wrong audience. GAD too much detail
- Liven up APF presentations – pace and delivery. Microphone issues. Good turnout/vibe from attendees
- Location was difficult to get to, with expensive parking and bad traffic. Keynsham would be better
- Could have some fruit with the biscuits
- Some sessions needed to be more concise
- Academy forum a very good idea
- Whilst interesting the SAB, TPR and GAD talks weren't directly relevant to our needs as an employer
- GAD very heavy subject – perhaps earlier in the day better

ENDS

01/03/2017

SWM

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	23 May 2017	AGENDA ITEM NUMBER
TITLE:	Risk Management Update – Risk Register	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 Avon Pension Fund Risk Register Top Ten Risks Link to the full Risk Register: S:\Pensions\Users Shared\APF Pensions Board\Risk Register		

1 THE ISSUE

- 1.1 The purpose of this report to update the current position of the Avon Pension Fund Risk Register and its top ten risks.

2 RECOMMENDATION

- 2.1 That the Board notes the report and comments on the Risk Register.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct implications related to the Pension Board in connection with this report.

4 REPORT - AVON PENSION FUND RISK REGISTER

- 4.1 The Risk Register identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.
- 4.2 The Risk Register is reviewed every quarter by the pension management team. Risks identified cannot be eliminated but can be treated via monitoring.
- 4.3 The top 10 risks are included as Appendix 1 with the full register available to view at: <S:\Pensions\Users Shared\APF Pensions Board\Risk Register>
- 4.3 The risks identified fall into the following general categories:
 - (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
 - (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence
 - (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
 - (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process
- 4.4 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.
- 4.5 In February 2017 the register was reviewed and a number of similar/repeated risks were amalgamated or closed, providing a more accurate picture of the current situation. There are now 27 risks identified in the full register (previous versions had 40+)

5 RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance and there are no significant or material risks to report as this is an information report.

6 EQUALITIES

- 6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7 CONSULTATION

- 7.1 Report and Issues have been subject to consultation with the S151 Officer and Strategic Director of Resources.

Contact person	Geoff Cleak, Pensions Manager - 01225 395277 Jeff Wring, Head of Audit West - 01225 477323
Background papers	
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1 ITEM G

AVON PENSION FUND RISK REGISTER - TOP 10 RISKS

Owner(s): Liz Woodyard / Geoff Cleak

Date updated: 24/04/2017

RISK STATUS KEY	
LOW	1 to 6
MEDIUM	7 to 14
HIGH	14 to 25

	#	DESCRIPTION	DATE ENTERED	RISK OWNER	CATEGORY	RISK SCORE										TOTAL	CURRENT OVERALL STATUS	PERIODS AGO			CURRENT STATUS OF ACTIONS	ACTIONS TO MANAGE RISK
						Likelihood					Impact											
						1	2	3	4	5	1	2	3	4	5							
1	R42	Increase political pressure to reform the scheme & governance, reduce costs and direct investment decisions. If the fund does not have a robust plan for change, risk that government will direct funds. Implications: committee is unable or does not make decisions in best interest of the fund.	12-Sep-13	Head of Business, Finance and Pensions	Investment Strategy				4					4		16	HIGH	H	H	H	On target	The Investment Strategy Statement clearly defines the investment principles and objectives and the strategy in place to deliver. The Fund is actively developing Brunel Pension Partnership (BPP) to meet the government broad agenda to reduce investment fees and increase efficiency. BPP and the LGPS Cross Pool Collaboration Group is actively engaging with government on a wide range of issues related to the government's agenda.
2	R25 Page 103	Lack of knowledge and continuity within the Committee (risk arises as some members face re-election simultaneously. Until members are fully trained maybe a delay in decision making).	01-Jul-08	Pensions Investments Manager	Governance				4				3			12	MEDIUM	M	M	M	On target	There is a training plan in place linked to the 3 year Service Plan, which is periodically reviewed. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically as self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan.
3	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.	01-Jul-08	Pensions Investments Manager	Investment Strategy			3						4		12	MEDIUM	M	M	M	On target	A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is reviewed quarterly and annually by Committee (between strategic reviews) when the investment performance is measured against the liabilities, the strategic benchmark and mandate performance targets. The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process.

4	R51	Risk of Fund retaning incorrect pensions liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	10-Aug-15	Technical & Compliance Advisor	Admin Strategy			3						4		12	MEDIUM	M	M	M	On target	There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified as 1.5 fte to carry out reconciliation under management of Technical & Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee & LPB.
5	R56	Significant increase in employers especially if all schools convert to academy status.		Pensions Manager	Admin Strategy				4				3			12	MEDIUM				On target	Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies.
6	R16	Staffing – Failure of the Pension Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund.	01-Jul-08	All Managers	Admin Strategy			3					3			9	MEDIUM	L	L	L	On target	Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff. Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme from April 2017.
7	R54	The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The project is now in implementing phase. There is a risk that there are delays in implementation putting financial model (savings) at risk; that key resources or adequate resources are not available; Key senior staff are not recruited in line with timetable; that decision making by local funds stalls due to local election cycle. Any of the above could seriously impact the Fund's and pool's ability to meet the government's agenda re. pooling of assets.		Pensions Investments Manager	Governance		2							4		8	MEDIUM	M			On target	Established shadow governance structure to ensure the project is effectively managed including Committee representatives, finance and legal officers and investment officers. Expert advice has been commissioned to advise on the legal structure required, FCA authorisation and related issues. Advice will be commissioned as required. Additional resources provided to project team to manage implementation stage. Local funds have put delegations in place to ensure decisions can be made.
8	R05	Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities.	01-Jul-08	Pensions Manager	Admin Strategy			3				2				6	LOW	L	L	L	On target	All staff undertake to share personal data with 3rd parties through controlled framework; compliant with B&NES DP policies. Awareness of potential risk in not doing so. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going) Further staff training to be undertaken in 2017 to reinforce awareness
9	R10	Contributions from employing bodies are incorrect in value or are late. Implications: adverse short term cash flow; employer funding position could be over/under stated; possible breach of TPR code which could lead to fines.	12-Sep-13	Finance & Systems Manager (Pensions)	Admin Strategy		2						3			6	LOW	L	L	L	On target	Monthly receipt of contributions is monitored and payments received are reconciled to LGPS 50 forms. Incorrect or non-payments are followed up in line with TPR code. Annually reconcile receipts from employers to member records. Late payers are reported quarterly to Committee and followed up in line with Late Payers policy.

10	R19	Lack of adequate resources/ knowledge at scheme employers leading to a failure to comply with obligations to pension fund and employee members, and TPR code.	12-Sep-13	Pensions Manager	Admin Strategy		2						3			6	LOW	L	L	L	On target	The Pensions Admin Strategy clearly defines the Governance and administration requirements of TPR's Code of Practice are properly addressed as they fall to the Fund and its Employers. Key objectives/strategies set (communications, training, ICT & performance framework).
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Bath & North East Somerset Council		
MEETING:	Local Pension Board – Avon Pension Fund	
MEETING DATE:	23 rd May 2017	AGENDA ITEM NUMBER
TITLE:	Pension Board – Annual Report 2016/17	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Draft Annual Report		

1 THE ISSUE

- 1.1 The purpose of the report is to present the process and outline of the annual report of the Board's activities for 2016/17, as required under its Terms of Reference for approval.

2 RECOMMENDATION

- 2.1 The Local Pension Board is asked to comments on the current draft of the annual report and delegate authority to the Chairman of the Board to finalise the details of the report to enable key messages to feed into annual report of the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

- 4.1 Under the Public Service Pensions Act 2013 and as part of its terms of reference the LPB is required to produce and publish an annual report to the Council on its work, including any breaches of the law by the fund, recommendations on process and governance, and it should be circulated to the fund members and employers, and S151 officer and Monitoring Officer.
- 4.2 Based on its Terms of Reference document it is proposed the LPB annual report will summarise the Board's establishment and activities over the past 12 months – July 2016 – June 2017 - and briefly look forward to the proposed work plan for the forthcoming year.
- 4.3 An outline structure of the report is attached at Appendix 1 for comment by the Board and a final version will be approved at the July meeting of the Board. Specific comments are

requested from the Board around key highlights and information they believe should be included in the report to help communicate the work of the Board effectively to all its stakeholders.

- 4.4 The Annual Report will once approved be available on the Fund's website and also be referenced in the Annual Report of the Avon Pension Fund.

5 RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7. CONSULTATION

- 7.1 The report was distributed to the S151 Officer for consultation.

Contact person	<i>Jeff Wring (01225 477323)</i>
Background papers	<i>Council Report – Establishment of Avon Pension Fund Board – 15th January 2015</i>
Please contact the report author if you need to access this report in an alternative format	

Avon Pension Fund – Local Pension Board – Annual Report

1. Introduction

Welcome to the second Annual Report of the Local Pension Board (LPB) of Avon Pension Fund.

The Board was established in 2015 following a decision made by B&NES Council to create the Board in response to the Public Sector Pensions Act 2013.

This report covers the period 1st August 2016 to 31st July 2017 within which the Board has held four formal meetings.

The second year of operation of the LPB was focussed on a core agenda of key governance themes around compliance, risk and best practice as well as monitoring the significant developments connected to Project Brunel. This included -

- a) Establishing its own Terms of Reference and policies and procedures to ensure that its governance complies with the statute and LGPS regulations and best practice guidance issued by the national LGPS Advisory Board;
- b) Supporting development of Board Members skills and knowledge through formal and informal training and agreeing a training plan so its members are fully conversant with their statutory duties and responsibilities for example on the requirements of the Pensions Regulator;
- c) Developing and starting to implement a rolling work programme to fulfil its statutory duties;
- d) Understanding the legislative framework within public sector pensions, compliance standards and significant new developments which may affect future governance such as ‘pooling’.

I am delighted to say that with the support of the officers and advisors to the Avon Pension Fund the LPB has made good progress in fulfilling its terms of reference and continuing to support the Pension Fund in its efforts to establishing sound governance arrangements within Project Brunel.

The LPB has reviewed a wide range of areas and made a number of recommendations (see page 8 and Appendix 1). Examples of such action included the establishment of a formal Breaches Policy.

One of the most important reviews the LPB has undertaken is the funds compliance with the Pensions Regulators Code of Practice 14 (see page 6). The LPB welcomes the actions being implemented by the fund to ensure it fully complies with the Code before the LPB carries out its next annual review of compliance.

The LPB has also reviewed the Pension Funds communications and stressed the need for information to be kept up to date and the importance of the fund website to fund members

Looking ahead the LPB will seek to assist and support the Avon Pension Fund in respect of minimising potential governance and other risks arising from the Governments proposed asset pooling in 2017-18.

Last but not least could I thank my fellow Board members for their commitment to their roles on the LPB and I commend this report to you.

Howard Pearce
Independent Chair

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2. Legal basis of Local Pension Board

Background

At the request of central government Lord Hutton conducted a wide ranging review into public service pensions and published his findings in a report in March 2011 recommending significant change to the governance of Pension Funds, *'to make...schemes...more transparent'*.

Subsequently legislation was introduced in the form of the Public Sector Pension Act 2013 along with the Local Government Pension Scheme (Governance) Regulations 2015. These require each Local Government Pension Scheme (LGPS) administering authority to establish a new body known as a Local Pensions Board (LPB) to assist the Council (Administering Authority) in running the Pension Fund.

One of the key aims of the reform was to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

Therefore the LPB is separate to the Avon Pension Fund Committee (Section 101 committee) to which as administering authority (the Council) it has delegated its functions in relation to the administration of the LGPS.

Specific Role and Purpose

The Public Sector Pension Act 2013 therefore sets out the requirements for the establishment of a Board with the responsibility for assisting the scheme manager in relation to the following matters:

- a) Securing compliance with the regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and:
- b) To ensure the effective and efficient governance and administration of the Scheme.

The LPB will assist the 'Scheme Manager' by monitoring and advising on compliance with the pension scheme regulations, along with all other legislation and the requirements imposed by the Pensions Regulator to ensure the effective and efficient governance and administration of the Scheme.

The LPB therefore works with the Avon Pension Fund Committee to scrutinise its decision making process and ensure the Fund's compliance with its legislative requirements and is not a decision making body.

Pension Regulator

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore a focus for the LPB was in ensuring compliance with the Regulator's code of practice. This is split into a number of areas which covers Governance, Risk Management and Resolving Issues.

The LPB as part of their work plan has needed to consider these areas, to ensure the Fund is compliant and if not to make recommendations to the Pension Fund Committee on ways to address these requirements.

Terms of Reference

Terms of Reference for the board are available through the following link.

<http://www.avonpensionfund.org.uk/>.

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3. Establishment of Local Pension Board

The requirement for an Independent Chairman and Board Membership was outlined in the terms of reference to the LPB which were agreed by full Council on the 15th January 2015.

Adverts for the role of Chairman were placed on the Fund's website, Western Daily Press, Jobsgopublic.com, Local Government Chronicle online and the Council's job vacancy website.

All applicants were then reviewed against the five published criteria in the person specifications and a shortlist of four candidates drawn up for interview with the Strategic Director of Resources, Head of Business, Finance and Pensions and the Head of Audit West.

Interviews were held in June 2015 and a preferred candidate – Howard Pearce – was identified and recommended to the LPB for an appointment of four years.

The process for the appointment of Board Members followed a similar path with adverts placed on the Fund's website and pro-actively distributed through the many employee and employer communications and conferences.

Interviews for Board Membership were held from June 2015 through to May 2016 and as at May 2016 a full compliment of employer and employee members are now in post.

Details of the Local Pension Board Members

Independent Chairman:

Howard Pearce, former Head of Pension Fund Management, Environment Agency.

Employer Member Representatives:

Gaynor Fisher, active member

Steve Harman, active member

Tony Whitlock, active member

Scheme Member Representative:

David Yorath, retired member

Tom Renhard, active member

Mark King, active member

The register of interests for members of the Local Pension Board and details of each individual's relevant experience are available through the following link.

<http://www.avonpensionfund.org.uk/>.

Attendance at Local Pension Board Meetings – August 2016 – July 2017

Role	Board Member	Attendance
Independent Chairman	Howard Pearce	2/2
Employer Representative	Gaynor Fisher	1/2
	Steve Harman	0/2
	Tony Whitlock	2/2
Member Representative	David Yorath	1/2
	Tom Renhard	2/2
	Mark King	2/2

4. Training

Background

In accordance with the Pension Regulator (tPR) Code of Practice 14 every individual member of a LPB must in summary:

- Be Conversant with the rules of the local government pension scheme (LGPS) &
- Have knowledge and understanding of the law relating to pensions:

These responsibilities begin from the date the LPB member takes up their role. These knowledge and understanding requirements apply to every individual member of a LPB rather than as a collective group.

Degree of Knowledge and Understanding

The legal requirement is that Members of the LPB must be conversant with the rules of the LGPS and any document recording policy about the administration of the Fund. This is implied as a working knowledge so that members are aware of which legislation/policies to refer to when carrying out their role.

Areas of Knowledge and Understanding

LPB Members should be conversant with, but not limited to the following areas:

- a) Scheme approved policies
- b) Risk assessment/management
- c) Scheme booklets/members communications
- d) Role of LPB Members and the scheme manager
- e) Policies in relation to discretions
- f) Communications with scheme members and employers
- g) Key policy documents on administration, funding and investment

Training Undertaken

Briefings were given by officers from the Avon Pension Fund to LPB members on a full range of topics covering the LGPS framework, Avon Pension Fund and its administration.

In addition three Board Members attended the LGE Pensions Fundamental Course and five completed the on-line tPR e-learning public sector pension module toolkit.

Training is a regular topic at each formal board meeting and all Board Members retain their own training log, which is also submitted annually to assist in the completion of ongoing needs into a Training Plan.

Details of areas discussed, updates and plans are available through the following link –

<https://democracy.bathnes.gov.uk/ieListMeetings.aspx?CommitteId=563>

5. Local Pension Board Code of Conduct and Conflicts of Interest Policy

Code of Conduct

All LPB members signed up to a Code of Conduct in July 2015 which emphasised that as a holder of public office there is an expectation that LPB members will comply with the ‘seven principles of public life’, also known as the ‘Nolan Principles’.

Conflicts of Interest

All LPB members also signed up to their own Conflicts of Interest Policy in November 2015. This requires all members to notify Democratic Service of any potential conflict of interest arising as a result of their position on the Board.

All meetings of the LPB include a standing item titled ‘Declaration of Interests’ at the start of the meeting where any declaration in relation to the items on the agenda should be made.

All LPB members have formally completed their declaration of interest forms and through five formal meetings which have been held during the year no ‘conflicts’ have been declared. For more information on conflicts of interest and declarations at each meeting please use the following link –

<https://democracy.bathnes.gov.uk/mgCommitteeDetails.aspx?ID=563>

6. Pension Board Costs & Budget

In meeting the requirements of the Public Sector Pension Act (2013) and establishing a Local Pensions Board, Bath & North East Somerset approved terms of reference and necessary supporting arrangements at its meeting of its full Council on the 15th January 2015. The Pension Board continued to monitor its budget on an annual basis (February 2017) to enable the Board to perform its duties and a summary of costs for the year is included below –

Summary Financial Table

Budget Area	Actual Costs (TBC)	Budget
LPB Members Allowances	£8,000	£12,000
LPB Members Training Costs	£1,500	£3,000
LPB Meeting & Democratic Services Costs	£9,000	£8,000
Central Recharges & Officer Costs	£15,600	£17,000
Total	£34,100	£40,600

As with all elements of the public sector there is exceptional pressure to ensure value for money can be demonstrated and the Board will continue to consider this in its future operations.

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7. Local Pension Board Compliance with the Pension Regulator’s Code of Practice No.14

As part of assessing both the effectiveness and compliance of the Board with its key requirements, officers carried out a self-assessment of the LPB’s current arrangements against the Regulator’s Code of Practice No.14.

The full results of this exercise were reported to the LPB’s formal meeting in May 2016 and are available via the following link.

<https://democracy.bathnes.gov.uk/documents/s41759/Benchmarking%20update%20App2.pdf>

In summary the LPB and the fund were compliant with the Code and the self-assessment identified only a small number of recommended actions to take in meeting best practice, which included –

- Monitoring of Data Improvement Plan
- Managing Overdue contributions
- Records of Investigations and correspondence
- Production of Annual Benefit statements in required formats
- Provision of basic scheme information to new entrants
- Review Dispute Resolution procedures
- Review Employer obligations re: IDRP Procedures
- Review Employer obligations re: TPAS and Pensions Ombudsman Procedures

The Board remain committed that the exercise should be revisited at least annually to ensure it could evaluate its compliance and assess improvements where necessary.

8. Pension Fund Communications

Effective communications form a core part of the role of the Avon Pension Fund and during the year the Board reviewed the new website which had been developed by the Fund as well as the overall Communications Strategy.

The Board welcomed the new website which had refreshed and simplified the way information on the Fund could both be located and sought and commended the actions of officers. Reviewing the strategy for how the fund communicates to its many stakeholders will remain a key element of the work plan of the Board on a rolling basis.

9. Risk Management

Risk management processes for the Avon Pension Fund follow the framework laid down by the Council. The Risk Register for the fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

The Register is reviewed regularly by the pension management team and risks fall into one of the following categories –

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance;
- (ii) Service delivery partners not delivering in line with their contracts or SLAs;
- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian
- (iv) Changes to the National Scheme
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions

The LPB's ongoing review concurred with the views of Avon Pension Fund Officers in that the three top risks facing the fund revolve around –

- Project Brunel and future implications of pooling arrangements
- Significant growth of new employers through the Academies agenda
- Future Funding Strategy

The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service and the arrangements in place are supported by external and internal audit reviews.

The LPB will continue to ensure that a review of the risk register will remain a regular agenda item.

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10. Summary Review of Areas Covered in 2016/17 & Recommendations Made

The second year of operation of the LPB was focussed on a core agenda of key governance themes around compliance, risk and best practice as well as monitoring the significant developments connected to Project Brunel.

A summary of the areas covered and recommended is detailed as follows (**Full Details at Appendix 1**) –

Establishment of LPB Arrangements, Policies & Procedures
Ongoing: Review of LPB Terms of Reference Review of LPB Code of Conduct Review of LPB Conflicts of Interest Policy Review of Avon Pension Fund Regulatory Breaches Policy Review of Training Requirements Review of Work Plan
Review of Pension Fund Administration
 Review of Compliance Reports Review of Risk Register Review of Service Plan Review of Annual Report Review of Communication Strategy
Independent Assurance
 Review of TPR & CIPFA Benchmarking exercises Review of External Audit role and reports Review of Internal Audit role and reports

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11. Forward Plan for 2017-18

The draft work plan for the next 12 months is detailed as follows and will be kept under regular review.

AGENDA ITEM	TBC – 7 Nov 17	TBC – 15 Feb 18	TBC – 24 May 18	TBC – 19 July 18
Conflicts of Interest Declarations	X	X	X	X
Training Plan Update (Incl. Annual Plan)	X	X	X	X
Work Plan Update	X	X	X	X
Avon Pension Fund Committee & Investment Panel Minutes	X	X	X	X
LGPS Developments & Updates	X	X	X	X
Risk Register Update	X	X	X	X
Review of Pension Fund Annual Report	X			
Review of Administration Strategy				
Compliance Report	X	X	X	X
Internal Audit Plans & Update		X		
External Audit Plans, Accounts & Governance Report	X		X	
Pension Board Budget		X		
Benchmarking Update	X		X	
Avon Pension Fund Service Plan 17/18			X	
Pension Board Annual Report			X	X
Review of Communications Strategy				X
Review of Statement of Investment Principles (Statutory Investment Strategy Statement)		X		
Review of Policy Framework	X			
Review of Valuation & Funding Strategy	X			
Review of Data Integrity & Action Plans		X		
Review of IT Security & Business Continuity			X	
Review of Governance Compliance Statement			X	

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AGENDA ITEM	TBC – 7 Nov 17	TBC – 15 Feb 18	TBC – 24 May 18	TBC – 19 July 18
Review of compliance with TPR COP 14		X		
Review of Fund Internal Controls & Delegations		X		
Review of External Advisors				X
Review of Fraud Risk Strategy		X		
Review of Complaints/IDRP Procedures			X	
Review of outcome of GMP reconciliation				X

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Appendix 1 – Local Pension Board – Actions & Decisions

	Area	Action
All meetings	Pension Committee and Investment Sub-Committee Decision Making Training and Work Plan requirements LGPS Developments Project Brunel Developments Compliance Report Risk Register	<p>The Local Pension Board actively scrutinised all Pension Committee and Investment Sub-Committee papers and minutes and considered their impacts in terms of the meeting agenda</p> <p>Monitor and update training plans for the Board and work plan for each meeting</p>
2nd November 2016	LGPS Developments Code of Practice 14 Update Actuarial Valuation Update GAD Section 13 Update on LGPS Funds Risk Management	<p>Resolved:</p> <p>To note Performance Indicators and Customer Satisfaction feedback for 3 months to 30 September 2016 & Data Improvement Plan.</p> <p>To recommend to the Fund that:</p> <p>a) poorly performing employers, whether they undertake training or not, should be required to sign an improvement action plan;</p> <p>b) a letter should be sent to poorly performing employers advising them that they could be reported to The Pensions Regulator.</p> <p>To note the outcome of the review of the TPR's Code of Practice No 14 and latest position against best practice.</p> <p>Note the Report</p> <p>Note the Report</p> <p>Note the Report</p>
	Area	Action
16th February 2017	LGPS Developments Project Brunel Update	<p>Resolved:</p> <p>Note the report</p> <p>Note the report</p>

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	Investment Strategy Statement Update	To request the Head of Business, Finance and Pensions to circulate the investment strategy statement to Pension Board members to enable them to comment on its compliance with DCLG statutory guidance. The statement will then be submitted to the Pensions Committee for consideration along with any comments received.
	Valuation Update Report	Note the Report
	Compliance Report	To Note a) the membership data, employer performance and Avon Pension Fund performance for the 3 months to 31 December 2016. (b) Progress and reviews of the TPR Data Improvement Plan.
	Benchmarking Update	Note the Report
	Risk Management	To note the report and to receive the full risk register including the top 10 risks at the next meeting.
	Internal Audit Update	To note the report and outcomes from Internal Audit work. To request that the following areas be included in the B&NES Council Audit Plan for 2017/18: a) Pensions Investments b) Pensions Administration – System Calculations c) Pensions Administration – Employer Contributions d) Pensions Governance (COP 14) e) Pensions Payroll
	Training, Work Plan & Budget Updates	To note the report and to endorse the high level Training and Work Plans outlined in Appendices 1 and 2 of the report and the indicative budget at Appendix 3. To receive future training as a group on the governance relating to the Brunel Project.
23rd May 2017	LGPS Developments External Audit Update Pension Fund Service Plan Risk Register	Resolved:

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	Investment Strategy Statement Compliance Report Training & Work Plan Updates	
	Area	Action
27th July 2017	LGPS Developments Project Brunel Update Communications Strategy Compliance Report Risk Register Annual Report Training & Work Plan Updates	Resolved:

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Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	23 rd May 2017	AGENDA ITEM NUMBER
TITLE:	Training, Work Plan & Budget Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Outline Training Plan		
Appendix 2 – Outline Work Plan		

1 THE ISSUE

- 1.1 The purpose of this report is to receive regular updates on Training and Work Plan issues from the Board and present the current outlines of the Training & Work Plans. Board Members are asked to consider the plans attached at Appendices 1 and 2 and present their own feedback at the meeting.

2 RECOMMENDATION

That the Board

- 2.1 Notes the report and endorses the high level Training and Work Plans outlined in Appendices 1 and 2.

3 FINANCIAL IMPLICATIONS

- 3.1 There are direct implications related to the Pension Board in connection with this report, however these are all currently within the planned budget for the operation of the Board.

4 REPORT

4.1 Training

- 4.2 In developing a training plan Board Members should reflect on their own statutory requirements as set out in previous reports. In summary Board Members should have a breadth of knowledge and understanding that is sufficient to allow them to understand fully any professional advice the Board is given. They should also be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision relating to the Board's duty to assist the Avon Pension Fund.

4.3 As agreed at previous Board meetings individual board members should retain their own training log to evidence how they are fulfilling their responsibilities and update these on a quarterly basis to aid future training needs analysis. We remain hopeful that training will be aligned with that of the Pension Fund Committee Members over the coming 12 months.

4.4 A high level training plan at Appendix 1 has been developed based on the self-assessment completed by Board members which needs regular review and update to reflect ongoing individual needs and is attached for consideration.

4.5 **Work Plan**

4.6 In developing a work plan the Board should reflect the need to maintain a balance between building the knowledge and understanding of Board Members along with delivery of the statutory obligations of the Board.

4.7 The views of the Board are vital in informing the nature, frequency and cyclical nature of items as well as the timing of certain time-critical issues for consideration such as Project Brunel.

4.8 An outline of the Work Plan is attached at Appendix 2 for consideration and will continue to be worked on and re-presented at each meeting as the year progresses using the comments and feedback of the Board, Officers and other stakeholders such as the Pension Fund Committee to inform its contents.

5 **RISK MANAGEMENT**

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance and there are no significant or material risks to report.

6 **EQUALITIES**

6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7 **CONSULTATION**

7.1 Report and Issues have been subject to consultation with the Strategic Director of Resources.

Contact person	Howard Pearce, Chair of Pension Board Jeff Wring, Head of Audit West, 01225 477323
Please contact the report author if you need to access this report in an alternative format	

HOW DOES THE BOARD RATE THEIR KNOWLEDGE ON THE FOLLOWING AREAS	Limited	Basic	Good	Skilled	Priority (H/M/L)	Members' Board Papers (Electronic)	Briefing Notes/ Short Seminars (At Board Meetings)	Internal Training Events (Internal & External Specialists)	External Conferences & Training Seminars (LGE Fundamentals etc)	tPR Best Practice Guidance & Trustee Toolkit & E-Learning	TARGET DATE
1. Pensions Legislation			X		L	X	X		X	X	Ongoing
2. Pensions Governance			X		M	X	X		X	X	Ongoing
3. Pensions Administration			X		M	X	X		X	X	Ongoing
4. Pensions Accounting & Auditing Standards		X			L	X	X		X	X	Ongoing
5. Pensions Services Procurement & Relationship Management		X			L	X	X		X	X	Ongoing
6. Investment Performance & Risk Management		X			M	X	X	X	X	X	Ongoing
7. Financial Markets & Products Knowledge		X			M	X	X	X	X	X	Ongoing
8. Actuarial Methods, Standards & Practices		X			M	X	X	X	X	X	Ongoing

Self-Assessment Returns

Howard Pearce	Yes
David Yorath	Yes
Steve Harman	Yes
Tom Renhard	Yes
Gaynor Fisher	Yes
Mark King	Yes
Tony Whitlock	Yes

Board Members Specific Requests/Areas for Additional Training/Briefing Notes

1	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefit administration.
2	An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.
3	An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.
4	Knowledge of how discretionary powers operate.
5	An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.
6	A general understanding of the main public procurement requirements of UK and EU legislation.
7	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.
8	An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

9	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.
10	An understanding of the implications of including new employers into the fund and of the cessation of existing employers.
11	An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.
12	An understanding of how breaches in law are reported.
13	An understanding of best practice in pensions administration eg performance and cost measures.
14	An awareness of the Myners principles of performance management and the approach adopted by the administering authority.
15	An understanding of the limits placed by regulation on the investment activities of local government pension funds.

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Draft Work Plan – Avon Pension Fund Local Pension Board**Appendix 2**

AGENDA ITEM	27/07/16	02/11/16	16/02/17	23/05/17	27/07/17	07/11/17	15/02/18	24/05/18	19/07/18
Conflicts of Interest Declarations	X	X	X	X	X	X	X	X	X
Training Plan Update (Incl. Annual Plan)	X	X	X	X	X	X	X	X	X
Work Plan Update	X	X	X	X	X	X	X	X	X
Avon Pension Fund Committee & Investment Panel Minutes	X	X	X	X	X	X	X	X	X
LGPS Developments & Updates	X	X	X	X	X	X	X	X	X
Risk Register Update	X	X	X	X	X	X	X	X	X
Project Brunel Update	X	X	X	X	X	X	X	X	X
Review of LPB Policies					X				X
Review of Pension Fund Annual Report		X				X			
Compliance Report	X	X	X	X	X	X	X	X	X
Internal Audit Plans & Update		X	X				X		
External Audit Plans & Update				X				X	
Benchmarking Update		X	X			X	X		

Draft Work Plan – Avon Pension Fund Local Pension Board**Appendix 2**

AGENDA ITEM	27/07/16	02/11/16	16/02/17	23/05/17	27/07/17	07/11/17	15/02/18	24/05/18	19/07/18
Avon Pension Fund Service Plan 16/17				X				X	
Pension Board Annual Report	X			X	X			X	X
Annual Review of Communications Strategy	X				X				X
Review of Statement of Investment Principles (Statutory Investment Strategy Statement)			X	X			X		
Review of Valuation & Funding Strategy		X	X				X		
Review of Data Integrity & Action Plans						X			
Review of Business Continuity						X			
Review of Governance Compliance Statement					X				
Review of compliance with TPR COP 14		X				X			
Review of External Advisors									
Review of outcome of GMP reconciliation									
Review of Complaints/IDRP Procedures									