

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 24th May, 2018

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Steve Harman (Employer Representative), Mark King (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 Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure

2 APOLOGIES FOR ABSENCE

Apologies were received from Tom Renhard.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Councillor David Veale, Chair of the APF Committee, to the meeting.

The Chair advised Members that the National Scheme Advisory Board had just published its annual report for 2017. This is available on the LGPS website at: <https://www.lgpsboard.org/index.php/schemedata/scheme-annual-report>. One of the main messages was that the LGPS had continued to grow, with more members, more employers and more assets.

The Chair reminded Members of the role and purpose of the Board, which was to help the administering authority to secure compliance with LGPS Regulations and the requirements of the Pensions Regulator, and to ensure the efficient and effective governance of the administration of the APF scheme.

5 ITEMS FROM THE PUBLIC

6 ITEMS FROM MEMBERS

7 MINUTES OF PREVIOUS MEETING

These were approved as a correct record and signed by the Chair.
The Chair referred to Minute 73:

“The Chair noted that at the previous meeting (minute 59) that the Board had requested training on how APF cost savings from pooling would be assessed,

monitored and audited. It was agreed that this would be arranged for later this year.”

He said that he hoped this training would be provided in the not too distant future to enable Members to understand how savings from pooling would be monitored, audited and checked. The Head of Business, Finance and Pensions responded that the Government was developing templates for funds to log savings and they would have to report regularly. The new pensions minister had a background in investment, and his key focus was on pushing through pooling and ensuring that cost savings were delivered, so there was considerable pressure on funds to achieve savings. The Chair suggested that the appropriate time for training would be when the cost-saving templates were available, and that the members of the APF Committee might also find the training useful.

8 PENSION BOARD ACTION LOG

The Chair thanked officers for providing the action log and for its clarity. The Pensions Manager reported that he had spoken to a number of other funds in the BPP that week about reporting of breaches to TPR (Action 1.6) and that one of them had said that they had reported themselves for breaches three times to TPR, once in each of the past three years, for failure to achieve a target. No action had been taken over the first two breaches, but after the third breach there had been a conversation with the relevant scheme manager, and an agreed improvement plan had been put in place.

The Chair said that TPR was probably still finding its feet in relation to action on breaches. He reminded the Board that Barnet pension fund had been fined for failing to provide information to TPR. He noted that TPR's resources had been increased by 20% this year, to enable them to increase their effectiveness.

9 MINUTES OF THE MEETING OF THE AVON PENSION COMMITTEE OF 23RD MARCH 2018

There were no comments on the public minutes of this meeting. Before considering the exempt minutes the Board, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of the section 100(A)4 of the Local Government Act 1972, that the public should be excluded from the meeting while the exempt minutes were discussed and that the reporting of this part of the meeting be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

RESOLVED to note the public and exempt minutes of the Avon Pension Fund Committee of 23rd March 2018.

10 MINUTES OF THE MEETING OF THE AVON PENSION COMMITTEE INVESTMENT PANEL OF 21ST FEBRUARY 2018

There were no comments on the public minutes of this meeting. Before considering the exempt minutes the Board, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance

with the provisions of the section 100(A)4 of the Local Government Act 1972, that the public should be excluded from the meeting while the exempt minutes were discussed and that the reporting of this part of the meeting be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

RESOLVED to note the public and exempt minutes of the meeting of the APF Investment Panel of 21st February 2018.

11 BRUNEL UPDATE - ORAL REPORT

The Head of Business, Finance and Pensions updated the Board.

He reported that Brunel had appointed Legal and General as passive manager for the pool and were currently producing tenders for the UK equities and low volatility portfolios. A transition manager had been appointed and Analytics had been engaged as their strategic transition adviser, to ensure that they have an efficient process. There had been ongoing procurement for internal audit, tax advisory services and website provision, which would come to fruition over the next few months. They were now fully staffed, with a complement of 32 people. With regard to governance, a detailed report on all main activities would be made to the quarterly meetings of the Oversight Board, which will report cost savings. He had brought a sample copy of this with him, which Members could inspect if they wished. Brunel has produced its RI strategy. The next step would be the transition of the equity portfolios, followed by emerging market portfolios. The transition of complicated assets like private equity, property and hedge funds would take place from 2019. There would be a review of the business case in 2018. The asset transition plan had been received by the Investment Panel the previous day. The Panel would monitor its implementation.

The Chair asked Members how they would want this agenda item to be structured in future. Would they still be content with oral updates? A Member said that the role of the Oversight Board was crucial, and he asked whether Brunel's report to the Oversight Board might be made available to the Pension Board. The Head of Business, Finance and Pensions replied that Members were welcome to inspect the sample report, but at present it would not be possible to routinely circulate the report to the Pension Board. The Member said that he would welcome a report showing before and after transition information for the Fund and comparative information about other funds, for example the level of passive management fees before and after transition, with explanations of why other funds were achieving better savings than APF, which had already realised substantial cost savings before transition. The Head of Business, Finance and Pensions replied that there would be much better information and more transparency once the Government fee cost templates were available. However, it would be extremely difficult to define a starting point against which changes could be measured. This was because in the past couple of years there had been changes to the strategic allocations of the Fund, LDI had been set up and so forth. What was now being transitioned was quite different from where the Fund was at the point the Business Case was approved.. The investment market was also rather fluid, as some investment managers were trying to reposition themselves as pooling developed, while others were not under the same competitive

pressure to restructure their fees, and others again did not wish to be involved in pooling at all.

The Chair said that he was pleased to see that new reporting arrangements were being prepared. He accepted that the fluidity of the situation meant that some of the detail would probably not be available to the Board, but noted that the Panel were monitoring the transition. The Brunel accounts and auditors' reports would be valuable sources of information for the Board.

The Head of Audit West suggested that it would help to avoid unnecessary duplication of scrutiny by the Board as well as by the Committee if this item continued to be an oral report.

The Chair said that the Member who had presented his apologies had raised a number of issues in an email to him. One of them was whether the LGPS transparency code had been adopted by Brunel. The Head of Business, Finance and Pensions confirmed that this was the case, and that it was the intention that all Brunel investment managers should do so.

RESOLVED to note the update.

12 LGPS UPDATES

The Pensions Manager presented the report.

He drew attention to the information on agenda page 22 about the Local Government Pension Scheme (Amendment) Regulations 2018 (which came into force on the 14 May this year with effect from 1st April 2014), the Best Value & Fair Deal consultation and Freedom and Choice options.

Responding to a question from the Chair, he said that these developments had not really made administration easier or helped reduce the backlog; complexities remained. The Chair then asked if there was any mechanism the Fund could use to influence the issue of more helpful Regulations. The Head of Finance, Business and Pensions said that the principal mechanism currently available to the Fund was to respond to all Government consultations and attempt to influence developments in this way. It was a problem that both the Scheme Advisory Board and the Ministry lacked people with practical experience of pensions administration, so there was no process for testing proposed Regulations with funds. The Chair said that it was extraordinary that funds had been waiting two years for Regulations that do not work. A Member suggested that the funds might offer to pool their knowledge to become the LGA's expert advisers. The Head of Business, Finance and Pensions replied that the funds were probably too preoccupied with pooling to have the time and resources to do this at the present time, and pensions were not at the top of Government's agenda and were unlikely to be for the next few years. The Board could help by formally noting where deficiencies in the Regulations were impacting on the efficient management of the Fund. The Chair said that he would raise the matter at the annual LPB CIPFA event, which he was attending on 27th June. The Chair of the Scheme Advisory Board would be present.

The Pensions Manager drew attention to the actions taken by the Fund in relation to the decision in the Brewster case about co-habiting partners and in relation to the General Data Protection Regulation.

RESOLVED to note the report and latest developments.

13 AVON PENSION FUND SERVICE PLAN 2018/21

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

He explained that the Fund's three-year Service Plan is reviewed annually, giving an opportunity to identify the key issues and challenges facing the Fund in the coming year. It also contains an update on progress with the previous three-year plan.

The top challenge facing the Fund over the next two years was obviously the impact of Brunel, including the transitioning of assets, achieving savings and ensuring that Brunel delivers on the efficient management of investment. A number of staff had been lost to Brunel, and the Fund needed to ensure that it had sufficient resources to manage the investments for which it was still responsible.

The second challenge was the valuation on 31st March 2019. At the moment it looked as though the Fund was in a good position, with a 95% funding level.. However, the position of individual employers varied greatly, with new employers joining the Fund regularly. This gave rise to a wide spectrum of risk, in response to which the actuarial team had been strengthened. The team were looking at the level of risk of individual employers to ensure that the Fund as a whole does not carry excessive risk. Academies were an area of concern because of continuing change in the sector which is continuing to evolve, and so also were colleges without guarantors. This actuarial work on risk would inform the funding strategy and the setting of contribution rates.

On the administration side, the Pension Board been concerned about whether resources were adequate, but in his view it was not simply a matter of resources, it was something more fundamental: it was a matter of approach. There was a combination of some regulatory benchmarks being not fit for purpose, and the employers, who were a key source of data, not having any common standard. This was a major challenge. The Service Plan identified specific improvement projects, some of which would be supported by temporary staff appointments. A key part of the strategy was the rolling out of electronic services for members and employers. A number of new temporary posts had been created, but this was not long-term, just a means of enabling the Fund to get through the challenges of the next few years. It was expected that there will be no more academy conversions after 2020 and that the transfer of data would be taking place more efficiently. However, developments would be kept under review. He and the Pensions Manager had discussed with the Council's legal advisers options for passing as much of the administrative burden as possible back to the employers. The Administration Strategy already includes provisions for charging employers for any extra administrative burdens imposed by their acts or omissions, and consideration is being given to increasing the charges, or alternatively recognising that the employers lack resources and offering pension administration services to them. The key legal issue was how this could be done without creating conflicts of interest.

The Chair said that there were some good initiatives in the Plan, and he was pleased that the Board's advice about the need for extra administrative resources had been heeded.

A Member asked whether staff terms and conditions had been reviewed to increase the attractiveness of posts in Pensions in the current job market. The Head of Business, Finance and Pensions said that some job advertisements had attracted a high number of applicants, others far fewer. The reasons for the difference needed to be reviewed.

The Chair asked about succession planning. The Head of Business, Finance and Pensions replied that there was a view on how staff should be developed; there was a training plan involving in-house training and professional training.

A Member asked whether apprenticeships had been considered. The Head of Business, Finance and Pensions replied that four apprentices would be appointed. It had been found in the case of apprentices appointed by Finance that their abilities varied a great deal. Some were very good, others less so. He would be pleased if two of the four apprentices were good. Responding to a question from the Member about how Brunel had managed with recruitment, he explained that 50% of Brunel employees had come from the funds, leaving the funds with the problem of backfilling posts, which was particularly difficult on the investment side where the skills were highly specialised.

A Member asked whether there would be benefits from a review of the employment package for all administration staff. The Head of Business, Finance and Pensions replied that he had raised such a review with the former Strategic Director, who thought there should be a review of the Fund as a whole, and he now was taking this forward with his successor. This would take some time. The Board would be aware that Pensions was not the only service in the Council with resource issues, and the Council would not wish to set a precedent by establishing a separate pay scheme for an individual service.

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

14 LEGAL TIMEFRAMES UPDATE

The Pensions Manager presented the report. He said that the report had been prepared following the Board's request at its November 2017 meeting for comparative information of APF administrative performance against Service Level Agreement targets and legal deadlines. The report covered the quarter to 31st March 2018. In every case the legal deadlines are laxer than the SLA targets. The preparation of the report had taken a considerable amount of officer time, and its format was still a work in progress.

The Head of Business, Finance and Pensions clarified that the measurement of time elapsed excluded down time where the legal requirement allowed "the clock to be stopped", for example while awaiting third-party responses.

The Chair thanked officers for preparing the report. He said the information it contained was fundamental for the Board's role in monitoring compliance with the LGPS Regulations. He thought the report should not be extended, but maintained in its present format, so that it did not become burdensome for officers. The report provided the evidence base to show that some of the regulatory targets were quite unrealistic. He hoped it would help the Regulator and the LGPS to specify more realistic timescales and take account of the involvement of many third parties in the process. The Regulator's standard for compliance was 95% of cases, so officers should consider using this figure. The Fund could, if feasible, move towards that standard over a period of time. If it was not feasible, it would provide further evidence that the Regulations need amendment and that the Regulator needs to rethink this whole area of compliance. A Member suggested that comments should be added to the table in Appendix 2 to explain why the deadlines had not been achieved, for example that information was awaited from third parties.

In conclusion the Chair said he and officers could influence the development of more realistic standards by raising the issue with the LGPS bodies in which they participated.

RESOLVED to note Avon Pension Fund performance to 31st March 2018 with regard to published legal and statutory deadlines.

15 COMPLIANCE REPORT

The Pensions Manager presented the report. He informed Members that there were 30 new employers in the Fund since the last report, the majority of them academy conversions and admitted bodies created in connection with those conversions. A number of schools had outsourced their payroll to third parties. There were a further 72 employers who could potentially be admitted to the Fund over the next three to twelve months. There had been a further improvement in overall performance against SLA targets in 10 out of 14 areas of administration work. The backlog of deferred cases had been completed in March, and work was currently continuing on the backlog of inter-fund transfer cases. The next backlog to be addressed will be Aggregation cases. A detailed report was given in Appendix 4 on the TPR Improvement Plan data. The employer services team were engaging with employers to clear errors identified and providing training when necessary. The Fund's TPR data score had improved from 93.96% to 94.48% over the quarter.

The Chair requested responses to issues raised by the absent Member, to which the Pensions Manager responded.

1. Is I-Connect freeing up officer time? The onboarding project is still in progress. 122 employers, that is about one third of the total, were now on the system. Data submitted was being monitored. He did not think it would free up very much officer time.
2. Has the performance of late-paying employers who have breached on more than one occasion improved? Small employers can still be problematic. In the future we will be looking to harmonise the monthly contribution return with I-Connect. Organisations which have an improvement plan in place will be reported if they fail to comply with it.

RESOLVED to note:

1. Membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 31st March 2018.
2. Progress and reviews of the TPR Data Improvement Plan.

16 RISK MANAGEMENT UPDATE

The Pensions Manager presented the report. He asked Members to note that there had been no movement within the top ten risks for the past year.

The Chair asked on behalf of the absent Member what action was being taken relation to R28 (Fund unable to recruit appropriately-qualified technical or investment staff), whose current status was “potentially off target”. The Head of Business, Finance and Pensions replied that this had been covered during the discussion on the Service Plan.

RESOLVED to note the report and comments on the Risk Register.

17 TRAINING, WORK PLAN AND BUDGET UPDATE

The Head of Audit West presented the report.

He invited Members to clarify the current state of their training logs. All Members present reported that they had submitted their training logs. The Chair said that he had submitted his own training log, and noted that Tom Renhard had submitted his.

A Member suggested that briefing notes would be helpful to Members. A Member felt that his level of understanding of a particular issue had declined. The Head of Audit West said that this was an interesting comment, and he would consider how additional training could be provided in areas where Members felt this was the case. A Member suggested that areas of high priority of which Members should have a good understanding should be identified.

The Chair noted that he had emailed details to Member of the LPB annual conference, which had workshops on section 13 reports and data.

The Head of Audit West said that he would be contacting Members about dates for meetings after the July meeting.

A Member felt that the process followed for the consideration by the Board of the Investment Strategy Statement had not been satisfactory. He requested that next time it should come to the Board before it went to the Committee. Officers replied that the Committee had to approve the circulation of the draft ISS for consultation, so it was not possible to present it to the Board before the Committee. The Board would be included in the consultation before the ISS went to the Committee for final approval.

The Chair requested officers to give consideration to how the Board could input to the updating of the Administration Strategy.

The Head of Audit West said that the budget for the Board had been identical for its first two years, but this year central charges/internal support had been reallocated to APF, the allocation for communications had been removed because there had been no material spend during the first two years, the allocation for Democratic Services support had been reduced by £3K based on actual costs, and this £3K used to double the training budget.

RESOLVED to note the report and endorse the high-level Training and Work Plans outlined in Appendices 1 and 2 and Budget for 2018/19.

18 FORWARD LOOK

It was noted that all issues had been covered under other agenda items.

19 DATE OF NEXT MEETING

The next meeting of the Board is scheduled for 2pm on 19th July 2018 in the Kaposvar Room, Guildhall, Bath. Meetings after that date to be arranged.

The meeting ended at 3.58 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services