

# Pension Board

**Date: Thursday, 19th July, 2018**

**Time: 2.00 pm**

**Venue: Kaposvar Room - Guildhall, Bath**

**Board Members:** Howard Pearce, Gaynor Fisher, Steve Harman, Mark King, Tom Renhard, David Yorath and Tony Whitlock

Chief Executive and other appropriate officers  
Press and public



**Sean O'Neill**

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## NOTES:

1. **Inspection of Papers:** Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

Paper copies are available for inspection at the **Public Access points:-** Reception: Civic Centre - Keynsham, Guildhall - Bath, The Hollies - Midsomer Norton. Bath Central and Midsomer Norton public libraries.

2. **Details of decisions taken at this meeting** can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

### 3. **Recording at Meetings:-**

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<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

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<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

**Pension Board - Thursday, 19th July, 2018**  
**at 2.00 pm in the Kaposvar Room - Guildhall, 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: 24TH MAY 2018 (Pages 7 - 18)
8. PENSION BOARD ACTION LOG (Pages 19 - 20)
9. MINUTES OF THE MEETING OF THE AVON PENSION FUND COMMITTEE OF 22ND JUNE 2018 (Pages 21 - 34)
10. MINUTES OF THE MEETING OF THE AVON PENSION FUND COMMITTEE INVESTMENT PANEL OF 23RD MAY 2018 (Pages 35 - 42)
11. LGPS UPDATES (Pages 43 - 56)
12. BRUNEL PENSION PARTNERSHIP - VERBAL UPDATE
13. FUND GOVERNANCE FRAMEWORK (Pages 57 - 72)
14. SCHEME EMPLOYERS AND ADMITTED BODIES UPDATE (Pages 73 - 78)
15. PENSION FUND MISSING ADDRESSES - VERBAL UPDATE

16. GDPR IMPLEMENTATION UPDATE (Pages 79 - 94)
17. INTERNAL AUDIT UPDATE (Pages 95 - 114)
18. RISK MANAGEMENT - VERBAL UPDATE
19. PENSION COMMITTEE ANNUAL REPORT (Pages 115 - 128)
20. PENSION BOARD ANNUAL REPORT (Pages 129 - 142)
21. TRAINING AND WORK PLAN UPDATE (Pages 143 - 148)
22. FORWARD LOOK
23. DATE OF NEXT MEETING

The next meeting is scheduled for 8<sup>th</sup> November 2018.

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

**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 23<sup>rd</sup> 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 21<sup>st</sup> 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 1<sup>st</sup> 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 27<sup>th</sup> 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 31<sup>st</sup> 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 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 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 31<sup>st</sup> 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 31<sup>st</sup> 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 19<sup>th</sup> 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**

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

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## Avon Pension Fund Local Pension Board Action Log

A full action-tracker showing complete and pending items is included to monitor progress from the last Pension Board meeting. Actions identified prior to this are included only where they remain outstanding.

RAG progress rating	
Blue	Open
Green (G)	Completed
Amber (A)	In Progress
Red (R)	Outstanding

Ref	Action	Who	Deadline	Comments	Status
	<b>(1) November 2017</b>				
1.0	The Administration Strategy including charging policies for additional work caused by employers: this was due for review and would come to the next meeting of the Board	Admin GC	Autumn/Winter 2018	The Pensions Administration Strategy planned for review in Spring/Summer 18 has been put back to Autumn/Winter 2018	Open
1.5	When the Scheme Advisory Board publishes the findings of its review of Local Pension Boards, the Board should give feedback of areas where it considers that the DCLG needs to amend LGPS regulations and the SAB needs to do more with TPR to improve efficiency and effectiveness.	LPB		Awaiting SAB Report	Open
	<b>(2) February 2018</b>				
2.3	The Board would review the full Risk Register via available online access link and email Head of Business Finance & Pensions with any concerns	LPB	May 18	No information available	R
	<b>(3) May 2018</b>				
3.0	The Board have asked for explanatory comments to be included in report where the APF performance against statutory legal deadlines have not been achieved.	Admin GC		Noted – expected in next PB paper (November 2018)	Open

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Bath and North East Somerset Council

**AVON PENSION FUND COMMITTEE**

**Minutes of the Meeting held**

Friday, 22nd June, 2018, 2.00 pm

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

**Co-opted Voting Members:** Councillor Mary Blatchford (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), William Liew (HFE Employers) and Shirley Marsh (Independent Member)

**Co-opted Non-voting Members:** Richard Orton (Trade Unions) and Wendy Weston (Trade Unions)

**Advisors:** Ross Palmer (Mercer)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Steve Makin (Communication and Public Relations Manager), Carolyn Morgan (Employer Services Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

**1 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**2 ELECTION OF VICE-CHAIR**

It was proposed by Councillor O'Brien and seconded by Councillor Appleyard and **RESOLVED** that Councillor Patrick Anketell-Jones should be Vice-Chair of the Committee for the Municipal Year 2018/19.

**3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Cheryl Kirby.

**4 DECLARATIONS OF INTEREST**

Cllr Toby Savage advised that was now Leader and a Cabinet Member of South Gloucestershire Council. He did not think this would conflict with, or impact on, his role with the Committee. The Head of Business, Finance and Pensions suggested that Cllr Savage might wish to have a named substitute to the Committee in case his commitments occasionally prevented him attending meetings.

**5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

The Head of Business, Finance and Pensions announced that Paul Scott, Independent Member, had resigned from the Committee after his appointment as a Chief Investment Officer for an investment fund. A successor was being recruited.

## **6 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

## **7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

## **8 MINUTES OF PREVIOUS MEETING: 23RD MARCH 2018**

The public and exempt minutes of the meeting of 23<sup>rd</sup> March 2018 were approved as a correct record and signed by the Chair.

## **9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE**

The Investments Manager presented the report. She reminded Members that this was an annual item, which set out the governance arrangements for the Fund. This year Members were being invited to agree revised Terms of Reference for the Committee to reflect the impact of the Brunel Pension Partnership. Once approved by the Committee, the Terms of Reference would be presented to the Council for approval in September. As usual, Members were invited to approve the General Compliance Statement (also updated to reflect the impact of Brunel), and to appoint members to the Investment Panel and representatives to the Local Authority Pension Fund Forum.

In response to a question from the Vice-Chair about the reference in paragraph 1.6 to possible further changes to the Fund's governance, she suggested that the Committee might wish to review the role of the Investment Panel as the transition of assets to Brunel progressed.

A Member noted that the Terms of Reference included no reference to duties in relation to funding, or the power to require covenants from employers. The Investments Manager suggested that these were covered by key duty 8 *"commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations"* and in delegations to the actuary and to officers.

A Member suggested that the Investment Panel should be given the specific function of overseeing the transition of assets to Brunel. It was agreed that item 9 of the duties of the Panel *"Monitor the investment performance of the portfolios managed by Brunel"* should be amended by the insertion after *"monitor the"* of *"the transition of assets to Brunel and"*.

A Member asked whether the fact that Mercer were both investment advisors and actuary to the Fund might give rise to the possibility of conflicts of interest. The Investments Manager replied that this was not the case, because these were two discrete areas of work done under separate contracts, which were reviewed regularly and could be awarded to separate organisations.

It was agreed that the existing members of the Investment Panel should be reappointed for a further year, leaving one vacancy for the time being.

It was agreed that Steve Pearce and Richard Orton would be nominated as the Fund's representatives to the Local Authority Pension Fund Forum.

It was noted that Richard Orton would replace Wendy Weston as voting trade union Member with immediate effect.

**RESOLVED:**

1. To note the roles and responsibilities of the members, advisors and officers;
2. approve the draft revised Terms of Reference of the Committee and Investment Panel with the amendment to item 9 of the duties of the Panel recorded above;
3. approve the Governance Compliance Statement;
4. agree the membership of the Panel as recorded above;
5. agree the members to represent the Fund on the Local Authority Pension Fund Forum as recorded above.

**10 DRAFT STATEMENT OF ACCOUNTS FOR 2017/2018**

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

He reminded Members that the Fund's accounts were subject to a separate audit, but formed part of the Council's accounts. Under the 2015 Audit Regulations the accounts had to be audited by 31 July. The audited statement of accounts would be considered by the Corporate Audit Committee at its meeting on 30<sup>th</sup> July before going to Council on 21<sup>st</sup> September. The Committee was invited to note the draft accounts.

A Member asked about transaction costs (agenda page 37, paragraph (I)). The Finance and Systems Manager explained that, in accordance with CIPFA recommended practice, transaction costs are disclosed separately when they can be identified, but this was not possible when they were included within a pooled fund. At present year-on-year comparisons of investment costs could only be made by adding together management fees and transaction costs. The Investments Manager explained that eventually every manager would have to state transaction costs separately. It was hoped that better information would be available from next year. A Member was concerned that the information was not available now. He had thought that a system for reporting investment costs had been developed and was only awaiting approval from FCA. The Investments Manager replied that it was essential

to ensure that the information we disclose is accurate. Most managers had agreed to provide the information, and there would be much more accurate reporting of costs from next year; however the LGPS template only covered quoted assets. FCA had taken over the responsibility for producing a costs template from LGPS. FCA's template is expected to be very similar to that developed by LGPS and extended to include non-quoted assets. Once it is issued, expected in July, managers will have up to one year to prepare their systems for its use and to report in line with the template. She hoped that full information from managers would be available from next financial year.

In reply to a question from a Member the Investments Manager explained that the value of the Fund was calculated by the aggregation of the value of the manager portfolios. A workshop on the next valuation would be held before the September Committee, at which this would be explained.

A Member asked how the transfer of the Pensions Financial Systems team from the Fund to the Council for "operational efficiency" had led to an increase in administration costs from £346k to £473k. The Head of Business, Finance and Pensions replied that 2.5 FTE staff had been transferred to the Council's team and there had been a corresponding reduction in the salary costs. The Pensions finance systems were better managed within the Council's team, and there had been no increase in operating costs.

**RESOLVED** to note the Draft Statement of Accounts for the year to 31 March 2019 for audit.

## **11 UPDATE ON BRUNEL PENSION PARTNERSHIP**

The Investments Manager presented the report. She reported that a review of the original Brunel business case approved by Council had begun, and should be completed by February/March of next year.

A Member noted that it was reported in paragraph 4.2(f) that Brunel's Responsible Investing Policy included all the aspects within Avon's current RI policy, and asked whether it went beyond it any way. The Investments Manager replied that it did as it will have a pool wide voting policy for segregated mandates which the Fund does not currently have; also there should be greater disclosure and transparency of reporting, because Brunel had greater resources for this.

In response to a question from the Vice-Chair, she explained that it had been agreed at the outset that each of the ten funds in the Brunel partnership would hold an equal 10% of Brunel shares, and that the size of their shareholding would not depend on the number of their members or the value of their assets. The Vice-Chair asked whether there was any risk associated with equal shareholdings. The Head of Business, Finance and Pensions said that the pooling agreement actually makes it very difficult for a fund to leave the pool. The fact that Avon was the biggest fund in the pool meant that its ability to achieve economies of scale from pooling was not necessarily as great as that of other funds, though it would undoubtedly make savings in some portfolios.

A Member was concerned to note that there were three apologies from Pension Committee representatives at the last meeting of the Oversight Board, and asked

whether substitutes were allowed. The Head of Business, Finance and Pensions replied that this was discussed at the last meeting of the Oversight Board, as a result of which there is a proposal to amend the shareholders' agreement to allow funds to send a properly-trained fund committee member as a substitute to meetings of the Board.

Before discussing the exempt appendices to this item the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED** that the public should be excluded during the discussion of exempt appendices 2a, 2b, 3a and 3b to this item and that the reporting of this part of the meeting be prevented, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of the Schedule 12A of the Act as amended.

**RESOLVED** to note:

1. the progress on the pooling of assets;
2. the updated project plan for the transition of assets;
3. the Internal Audit report.

## **12 EMPLOYER UPDATE AND COVENANT ANALYSIS**

The Investments Manager presented the report. Members were invited to note:

- the changes in the scheme employers and admission bodies since the 2016 valuation
- the summary of the revised Covenant process being implemented as a result of the increased number of employers in the Fund
- the impact of the LGPS (Amendment) Regulations 2018, which entitle scheme employers to receive an exit credit payment from the Fund with effect from 18 May 2018

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

**RESOLVED** to note the information in the report.

## **13 REPORT ON INVESTMENT PANEL ACTIVITY**

The Assistant Investments Manager presented the report.

**RESOLVED** to note the minutes of the Investment Panel of 23 May 2018 at appendix 1 and Exempt Appendix 2 as summarised in paragraphs 4.2 and 4.3.

## **14 ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE**

The Assistant Investments Manager presented the report.

Mr Palmer presented the Mercer investment report.

A Member noted the statement in 4.2(1) that the funding level had increased 1% over the year from 95% to 96% and contrasted this with the graph on agenda page 153 which showed a 4.5%-5% fall in the funding level between December 2017 and January 2018. He requested clarification about the cause of this fall. Mr Palmer said that this had been caused by a fall in the equity markets in the first quarter of 2018. There was a strong rally over the previous two years, followed by a sharp sell-off from early February to mid-March. The impact on the Fund would have been worse if the equity protection strategy had not been in place, as indicated in the bar chart and commentary on page 153.

The Vice-Chair noted that the median 3-year return of local authority pension funds (as reported on agenda page 208) was 7.7%, whereas Avon's return was in the bottom quartile at 7.0%. He wondered whether Avon might be focussing too much on risk. The Investments Manager replied that Avon differed from most other funds in having currency hedging in place, which made comparisons difficult. The Head of Business, Finance and Pensions said that the key figure was the funding level, and there is no information in the Pension Performance Statistics about funding levels. Other funds may be making higher returns because they have to take a higher level of risk to improve their funding levels. The whole point of the valuation exercise is to decide on an appropriate level of risk and balance risk and return. It would be more prudent for the Fund to focus on maintaining a high funding level rather than on making big investment gains. A Member said that it should be borne in mind that while the Fund has to pay pensions, it does not have to pay them until they become due, and so can afford to be patient.

**RESOLVED** to note:

1. The information set out in the report
2. LAPFF Quarterly Engagement Report at Appendix 4

## **15 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER AND RISK REGISTER**

The Communications and Public Relations Manager presented the report and summarised the key information:

- 30 new employers joined the Fund during the quarter, the majority of these being academies and associated community bodies. A number of schools outsourced their payroll to third-party providers. A further 72 potential new employers were in the pipeline. In addition B&NES is outsourcing its school catering, which potentially will create a number of new employers.

- There had been an overall improvement in administration performance over the previous quarter and the majority of priority cases are now actioned within target.
- Performance against statutory targets is now given (Appendix 2b) in areas for which there are also SLA targets. Performance against statutory targets and SLA targets cannot be directly compared because the statutory definitions are different.
- Work continues on backlogs. 80 cases out of a 190 case backlog of inter-fund transfers have been cleared and work will commence shortly on the backlog of member aggregation cases.
- Work commenced on a project to roll out iConnect to all employers at the end of March 2018. A summary of progress on strategic projects included in the Service Plan will be included in future Committee reports.
- Administrators had developed detailed reports to measure compliance with the TPR data improvement plan for common and scheme-specific data. Errors identified are prioritised and for active members employers are provided with a quarterly data exception report. Overall errors had reduced over the past quarter and the Fund will take additional steps when required to follow up with employers to improve compliance.

A Member referred to the list of late paying employers in Appendix 5, and asked whether it was possible to charge interest on late payments. The Finance and Systems Manager (Pensions) confirmed that this was possible when payment was more than one month late. The Member was concerned that some employers were making late payments more than once. The Finance and Systems Manager (Pensions) replied efforts were made to encourage employers to pay on time, but some of them were not good at operating their payroll systems or lacked good internal organisation.

Members discussed the usefulness of the SLA targets when the performance figures so often failed to reach them. The Head of Business, Finance and Pensions said this point had been made by the Pension Board in relation to the SLA and the statutory targets. The Pension Board had even suggested that the statutory targets were not fit for purpose. A Member suggested that the performance figures should indicate when the clock is stopped because information is awaited from an employer or other third party. The Head of Business, Finance and Pensions said the Pension Board had looked at this and had been surprised by how long sometimes it took employers and individuals to respond.

**RESOLVED** to note:

1. Membership data, Fund and Employer performance for the 3 months to 31<sup>st</sup> March 2018;
2. Progress and reviews of the TPR Data Improvement Plan.

## **16 BUDGET AND CASH FLOW MONITORING 2017/18**

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

**RESOLVED** to note:

1. The administration and management expenditure incurred for the year to 31 March 2018;
2. The Cash Flow report for the year to 31 March 2018.

## **17 UPDATE ON LEGISLATION**

The Technical Manager presented the report.

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

## **18 ANNUAL REPORT TO COUNCIL 2018**

The Investments Manager presented the report.

She said that the Committee's Annual Report would be presented to the September meeting of the Council, as would the Committee's amended Terms of Reference and the annual report of the Pension Board.

The Vice-Chair asked whether an indication could be given of the cost savings from pooling referred to on page 279. The Investments Manager said that she would be reluctant to do so, though this would be done in future years as the transition unfolds when there was more transparency around investment management fees, transition costs and savings. The Vice-Chair suggested that this was vital information, as cost saving had been one of the main rationales for pooling. A Member pointed out that, as stated in the draft report, the Government's desire to increase the capacity of the LGPS to invest in infrastructure was also a major driver of pooling.

**RESOLVED** to approve the Annual Report to Council.

## **19 WORKPLANS**

The Investments Manager presented the report.

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

The meeting ended at 4.24 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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of the Local Government Act 1972.

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## AVON PENSION FUND COMMITTEE INVESTMENT PANEL

### Minutes of the Meeting held

Wednesday, 23rd May, 2018, 2.00 pm

**Members:** Councillor Patrick Anketell-Jones (Chair), Councillor David Veale, Councillor Rob Appleyard, Councillor Mary Blatchford and Shirley Marsh

**Advisors:** Steve Turner (Mercer) and Ross Palmer (Mercer)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager) and Nathan Rollinson (Assistant Investments Manager)

#### 1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

#### 2 DECLARATIONS OF INTEREST

There were none.

#### 3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Paul Scott.

#### 4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

#### 6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

#### 7 MINUTES: 21ST FEBRUARY 2018

The public and exempt minutes of the meeting of 21<sup>st</sup> February 2018 were approved as a correct record and signed by the Chair.

#### 8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 MARCH 2018

The Assistant Investments Manager summarised the key information for the quarter ending 31 March 2018:

- The Fund's assets decreased by about 1.1% over the period.

- Sterling appreciated against the dollar by 3.7% over the quarter, which resulted in a negative impact on overseas returns. In line with expectation, the currency overlay programme compensated the Fund for this impact.
- Manager absolute returns were broadly negative over the quarter in line with wider market returns.
- The majority of managers failed to achieve their targets on a three-year rolling basis.
- Leverage in the BlackRock Qualified Investor Fund had increased over the period, so assets that could easily be utilised as collateral had been added by transitioning the Invesco enhanced indexation global equity mandate to a global passive equity fund managed by BlackRock.
- Agreement was reached between the Fund's currency overlay manager, Record, and BlackRock on the treatment of the currency exposure created by the non-GBP base options contracts. The changes to the currency overlay program, which will ensure consistency with the Fund's strategic policy on currency hedging, will commence in May.
- The remaining assets in regional BlackRock funds had been transferred to the Low Carbon Fund.

Mr Turner presented the Mercer Investment Performance Report. He drew attention to the table on agenda page 44, which showed that all managers for which data was available had failed to achieve their 3-year performance targets. He reminded Members that the overall investment strategy was more important than the performance of an individual manager and of the need to maintain assets with growth potential in order to meet current pension payments. Responding to a comment from a Member he confirmed that the funding level had fallen.

The Head of Business, Finance and Pensions reminded Members that the transition of assets to Brunel would take in excess of two years. The Fund would be dealing with some of the current set of managers for some time to come, so pressure on them to perform needed to be maintained. The Investment Manager pointed out that moving mandates to alternative managers before transitioning to Brunel could be quite expensive, as the Fund would effectively be doing 2 transitions. Therefore, if a mandate needs to be terminated for poor performance it will be, and an analysis of transition costs will be undertaken beforehand. Brunel was under pressure to deliver cost savings in line with the Full Business case timeline; operational risk also had to be managed, so the order of transitioning assets has taken both these into account.

Mr Turner and officers discussed the performance of individual managers with Members.

Before receiving the Mercer Risk Management Framework Quarterly Monitoring Report, the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public should be excluded from the meeting for the consideration of Appendix 4 to the

report, 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:**

- 1. To note the information as set out in the reports;
- 2. To report issues identified to the Committee.

**9 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING**

**RESOLVED**, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting for this item 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.

The Investment Manager presented the report.

After discussion it was **RESOLVED:**

- 1. To note progress made on the pooling of assets;
- 2. to agree that the revised portfolio specifications for the private asset portfolios are in line with the Fund’s strategic policy;
- 3. to note the project plan for the transition of assets.

**10 WORKPLAN**

**RESOLVED** to note the workplan.

The meeting ended at 3.52 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>LOCAL PENSION BOARD</b>
MEETING DATE:	<b>19<sup>th</sup> July 2018</b>
TITLE:	<b>LGPS Update – Latest Developments</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:-</b> 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.

<b>Contact person</b>	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
<b>Background papers</b>	Various Statistical Records
<b>Please contact the report author if you need to access this report in an alternative format</b>	

**SCHEME ADVISORY BOARD [SAB]****New Projects Included in 2018/19 Work plans**

Improving member data to meet the Pensions Regulator requirements

Project will aim to assist administering authorities in meeting the Pension Regulators requirements for monitoring and improving data. This project would include the identification of scheme specific conditional data and the production of guidance for authorities and employers.

SAB are to release guidance as to what constitutes “conditional information” in time for authorities to complete TPR return. Authorities have been advised to complete information as last year and any guidance will now be operative from 2019

Identifying regulations requiring statutory guidance and the drafting of such guidance

It is anticipated that MHCLG will propose a project to identify regulations which may be better sited within statutory guidance and to both propose the necessary amendments and assist with the drafting of guidance.

Identifying the potential benefits of further increasing the level of separation between the host authority and scheme manager role.

The separation project was put on hold while pooling was in its initial stages however a request has been made to reinstate the project. The objective would be identify both the issues deriving from the current scheme administrative arrangements and the potential benefits of further increasing the level of separation between host authority and the scheme manager role.

On agenda for SAB meeting on 28 June 2018

<http://www.lgpsboard.org/index.php/about-the-board/prev-meetings>

**Existing Projects to Continue into 2018-19**

Academies

Ministers agreed that DFE, MHCLG, 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.

<http://www.lgpsboard.org/index.php/structure-reform/review-of-academies>

## Academies (cont)

Two working groups have been set up Administration and Funding

### **Administration**

This group has focussed on 4 key areas :-

- ☐ More consistency in pensions administration
- ☐ More effective communication
- ☐ Improved training at local, regional and national level, and
- ☐ Clarifying the duties and responsibilities of stakeholders

### **Recommendation at the SAB meeting**

That SAB notes the work of the administration working group to date and approves the continuation of the sub-groups work to formulate a universal monthly data extract for future consultation with key stakeholders

### **Funding**

The funding working group is exploring proposals to standardise conversion methodologies, move to single future service rates within each LGPS fund and to better enable MATS to consolidate their schools in one LGPS fund.

An option to achieve these objectives from the group was to be discussed at the meeting of the DFE academy working group on 20th June.

It is important to note that the above does not meet the DFE primary aim of a common academy rate across funds and therefore they may wish to consider if the benefit of moving to a common rate within funds is something they wish to pursue.

### **Recommendation at SAB meeting**

SAB notes the work of the funding working group to date and agrees that subject to the feedback from DFE continues to develop the option outlined above.

SAB will then consider reports before submitting its recommendations to Ministers for their consideration.

Tier 3 employers	<p>Covers those Fund employers with no tax raising powers or guarantee. SAB is keen to identify the risk to LGPS Funds of default by such employers.</p> <p>There are currently two concurrent phases of work involved – Collating data and identification of issues.</p> <p>SAB tier 3 employer project carried out by Aon Hewitt– extension of surveys deadline to 31 January 2018 APF have completed survey</p> <p>SAB will then assess the risks to Funds and consider next steps.</p>	<p><a href="http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid">http://www.lgpsboard.org/index.php/board-publications/invitation-to-bid</a></p> <p>Once Aon Hewitt have analysed the information received they will put forward their draft report for consideration at the Board meeting on the 27th June 2018.</p>
Cost of Transparency compliance system procurement	<p>The Board has committed to securing a third party checking service</p> <p>Links to from SAB item are given here</p>	<p>On agenda for SAB meeting on 28 June 2018</p> <p><a href="http://www.lgpsboard.org/images/PDF/BoardJune2018/ITEM6_PaperD_CofTransparency_compliance_system_procurement.pdf">http://www.lgpsboard.org/images/PDF/BoardJune2018/ITEM6_PaperD_CofTransparency_compliance_system_procurement.pdf</a></p> <p><a href="http://www.lgpsboard.org/images/PDF/BoardJune2018/ITEM6_PaperD_ANNEX1_ComplianceSystemspecificationV1.pdf">http://www.lgpsboard.org/images/PDF/BoardJune2018/ITEM6_PaperD_ANNEX1_ComplianceSystemspecificationV1.pdf</a></p>
SAB obtain QC's opinion on the pensions responsibilities of local authority owned companies [EOC]	<p>The Scheme Advisory Board for the LGPS in England and Wales have obtained a Counsel opinion on scheme employer wholly owned companies (EOCs). Link to Opinion included here</p> <ul style="list-style-type: none"> <li>• Whether the Best Value Authorities Staff Transfers (Pensions) Direction 2007 applies to the transfer of employees from a local authority to a local authority EOC.</li> <li>• Whether the non-statutory Fair Deal guidance issued by HM Treasury in October 2013 applies to the transfer of employees from an academy to an academy EOC.</li> <li>• Whether EOCs meet the requirements of paragraphs 5 or 6 of part 2 of schedule 2 of the LGPS Regulations 2013.</li> <li>• The protections available to employees transferring under TUPE in relation to pensions, and the obligations placed on employers with</li> </ul>	<p><a href="http://www.lgpsboard.org/images/Guidance/QC_Opinion_April_2018_Employer_Owned_Companies.pdf">http://www.lgpsboard.org/images/Guidance/QC_Opinion_April_2018_Employer_Owned_Companies.pdf</a></p>

QC opinion [EOC]	<p>regard to the provision of pensions.</p> <ul style="list-style-type: none"> <li>• The situation if an employer to offer different schemes to different employee groups.</li> </ul> <p>In addressing the final bullet point, Counsel states: This would be highly likely to contravene equal pay legislation. EOC employees would be comparators with each other and with the authority's retained employees.”</p> <p>LGA understand that this does not mean that an employer would automatically be contravening equal pay legislation if it offered the staff it employed directly a different pension scheme to the staff it employed via an EOC. The usual potential defences could still apply, such as the material factor defence and whether a comparator is still a valid one in the particular circumstances of the case.</p>	
Cross Pooling	<p>In February 2018 SAB approved an elected member led Cross Pool Forum comprising three representatives from each of the eight pools and three trade union representatives to share and disseminate information on the pooling of LGPS assets and steps are being be taken to establish this</p> <p>As a result of the responses to the consultation on 27th March 2018 the Chairs of LGPS pension committees and local pension boards attended an open session where representatives from the eight asset pools reported on their progress in establishing their organisational structures and governance arrangements.</p>	<a href="http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf">http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf</a>

# MINISTRY FOR HOUSING COMMUNITIES and LOCAL GOVERNMENT [MHCLG]

Local Government Pension  
(Amendment) Regulations 2018  
LGPS  
Regulations:

Amendment Regulations with  
Best Value & Fair Deal  
consultation and freedom and  
Choice options

The original consultation on the draft regulations in May 2016 covered operational amendments to clarify areas of uncertainty within the original 2013 regulations

Main changes

Inclusion of Exit Payment where Employer leaves Fund with a surplus

Change to allow members from previous regulations to elect for immediate benefits without employer consent if aged between 55 and 60 (subject to any other restrictions)

Harmonise position regarding AVC contracts that commenced pre 1 April 2018

## **But not brought forward from the draft**

Simplifying aggregation so automatic transfer with 12 months to keep separate has been maintained. [The proposed change in the draft is contrary to the Public Services Pensions Act 2013 on the final salary link]

Best Value and Fair Deal for the transfer of staff is to be brought forward at later date..

Changes to regulations for Freedom and Choice despite numerous discussions with AVC providers will not be processed further and members will have to transfer out any AVC to take up any drawdown provision. [It would create substantial administrative complexities, primarily due to difficulties standardising procedures among a large number of AVC providers]

The regulation changes to allow early payment of benefits without employer consent before age 60 did result in an unintentional consequence for some deferred members who left before 1 April 1998 where some would lose a previous right to receive their benefits at age 60 [see over on right]

<http://www.legislation.gov.uk/ukxi/2018/493/contents/made>

Government response to consultation  
<https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

MHCLG have confirmed that this will be addressed within future amendments but following a request from Technical Group have released a statement setting out the intention of what the amendment should have provided

The request was made in view of the fact that the amendment regulations corrected at least 15 regulations where authorities had been applying the intended interpretation

Administering Authorities to decide on how this provision will be administered in the interim

This was discussed at the SW Pension Officers Group with LGA representative in attendance and it was unanimously agreed to follow the intention of the regulations pending further amendments

<p>Insolvency regime for further education and sixth form colleges technical consultation</p>	<p>In July 2016 the Department for Business, Innovation and Skills (BIS) published a consultation to develop an Insolvency Regime for the Further Education and Sixth Form College Sector, this was later taken over by the Department of Education [DFE].</p> <p>LGA responded to the consultation raising concerns that all steps are taken to prevent any risk arising that the pension liability of a college falls on to other employers in an LGPS fund, and ultimately the taxpayer.</p> <p>Technical and Further Education Act 2017 set out the framework for an insolvency regime, which applies aspects of existing insolvency law to further education and sixth form colleges in England and Wales. A further consultation (which opened on 18 December 2017 and closed on 12 February 2018) from the DFE, seeks views on the technical detail of the insolvency regime and sets out proposals as to how colleges at risk of (or in) insolvency will be dealt with in practice. It also outlines plans to further improve monitoring and support available to colleges in financial difficulty.</p>	<p>Technical and Further Education Act 2017  <a href="http://www.legislation.gov.uk/ukpga/2017/19/contents">http://www.legislation.gov.uk/ukpga/2017/19/contents</a></p> <p>Consultation  <a href="https://consult.education.gov.uk/fe-college-quality-and-resilience-team/fe-insolvency-regime/">https://consult.education.gov.uk/fe-college-quality-and-resilience-team/fe-insolvency-regime/</a></p>
<p>Co habiting Partners Update</p> <p>Elmes v Essex CC (Brewster)</p>	<p>The Brewster court case in Northern Ireland declared that <i>“The requirement to nominate a person under regulations 24 and 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 is incompatible with Article 1 of the first Protocol to, and Art 14 of, the European Convention on Human Rights and must therefore be disapplied”</i>.</p> <p>This effectively removed the requirement for a member to have provided a nomination form before their death, for their a partner who meets the definition of co-habiting partner set out in the LGPS Regulations to be entitled to a partner’s pension.</p> <p>Cases within the period 1 April 2008 to 1 April 2014 to be reassessed  12 such cases have been identified and letters sent to the potential respective partners. The 2013 scheme regulations did not have this restriction</p>	<p>Elmes v Essex CC confirmed that the decision made in Brewster had similar effect in England and Wales</p>
<p>GAD; LGPS Factor Tables</p>	<p>MHCLG and GAD are reviewing all tables due to another change in the scape rate. It is understood that GAD intend to make the tables unisex.</p>	

	Target time is 6 – 9 months	
<b>HM TREASURY</b>		
Pensions scams: consultation	<p>Awaiting response to consultation</p> <p>Government Response issued August 2017 outlines key areas</p> <p>a ban on cold calling in relation to pensions, to help stop fraudsters contacting individuals</p> <p>limiting the statutory right to transfer to some occupational pension schemes</p> <p>making it harder for fraudsters to open pension schemes</p>	<p><a href="https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation">https://www.gov.uk/government/consultations/pension-scams/pensions-scams-consultation</a></p> <p><a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638844/Pension_Scams_consultation_response.pdf</a></p>
Indexation and equalisation of GMP in public service pension schemes	<p>APF responded to consultation in Feb 2017</p> <p>On 22 January 2018, HMT published its response to the consultation.</p> <p>The government has been implementing an “interim solution” between 6 April 2016 and 5 December 2018. The consultation directs that this solution will be extended for a further two years and four months. This will cover those members of public service schemes with a GMP who reach state Pension Age on or after 6 December 2018 and before 6 April 2021.</p> <p>During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”.</p> <p>Government Actuary has issued an addendum to the guidance for Transfer and Divorce calculations</p>	HMRC to set up working group in 2019
Reforms to public sector exit payments: response to the consultation	<p>Further clarification on the claw back for re-employment in first year and setting the exit cap at £95k are still awaited Subject to Parliamentary time one of these could be issued by the end of the year</p> <p>The third more broader proposals in the third consultation no immediate development on these has been reported</p>	<p><a href="https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments">https://www.gov.uk/government/consultations/further-consultation-on-limiting-public-sector-exit-payments</a></p> <p><a href="http://www.legislation.gov.uk/uksi/2017/70/pdfs/uksi_20170070_en.pdf">http://www.legislation.gov.uk/uksi/2017/70/pdfs/uksi_20170070_en.pdf</a></p> <p><a href="#">Bill stages — Public Sector Exit</a></p>

	A Private Member's Bill the Public Sector Exit Payments (Limitations) Bill 2017 was introduced in Sept 2017 and its rescheduled second reading is set for 6 July 2018; to date no details have been made available	<a href="#">Payments (Limitation) Bill 2017-19 — UK Parliament</a>
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	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	<a href="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-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">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-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</a>
<b>THE PENSION REGULATOR (TPR)</b>		
Proactive engagement with LGPS funds planned for 2018 and 2019	<p>The Pensions Regulator's (TPR) Corporate Plan for 2018-2021 at page 18 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes. Following the publication of these new KPIs TPR has chosen the Local Government Pension Scheme as a cohort for proactive engagement throughout 2018 and 2019.</p> <p>TPR has chosen Local Government schemes because, in their view, the results of the 2017 Governance &amp; Administration Survey show that improvements in governance &amp; administration standards have slowed when compared to other public service pension schemes.</p> <p>Over the coming months, all LGPS scheme managers will receive written communications from TPR (and others involved with LGPS may also hear from TPR). These will cover governance &amp; administration matters including:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> the main risk areas scheme managers should already be focusing on</li> <li><input type="checkbox"/> what TPR's expectations are</li> <li><input type="checkbox"/> how those responsible for managing and running schemes can identify and mitigate such risks</li> </ul>	It is anticipated that up to ten administering authorities will be visited during the period

	<p>TPR have asked that the message below is conveyed to all LGPS administering authorities.</p> <p><i>“We highly recommend that scheme managers and pension board members carefully consider the messages given. It is essential to have robust governance and administration in place for your scheme. However, it must be noted that there are no new expectations from us. All of the areas are already covered in TPR’s Code of Practice 14 for Public Service Pension Schemes, and the associated guidance.</i></p> <p><i>If you haven’t already, we recommend that you complete TPR’s Public Service toolkit to learn about managing public service pension schemes and to increase your knowledge and understanding.</i></p> <p><i>We will engage further with a small number of scheme managers to undertake deeper regulatory engagement into each risk area, to understand what the current status is, the challenges scheme managers face, the extent of mitigation and improvement plans and how they are being implemented.</i></p> <p><i>Good scheme governance &amp; administration is a key factor to achieving positive outcomes for members. TPR will use its discretion in deciding whether it is appropriate to carry out further investigations and use its powers in situations where failings are identified.”</i></p>	
TPR provides guidance for trustees setting and monitoring investment strategies PN17-12 [30/03/2017]	<p>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.</p> <p>The guidance was developed for trust-based DB schemes and is not explicitly for LGPS funds, but some of the principles will apply to LGPS funds so they may wish to consider it as appropriate.</p>	<a href="http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx">http://www.thepensionsregulator.gov.uk/press/pn17-12.aspx</a>
Public Sector pensions website update	The Regulator dedicated public sector web pages provides a wealth of information regarding its Code of Practice 14 and public service toolkit. The toolkit which provides a foundation to effective scheme governance and administration has been updated and additional guides and checklist published	<a href="http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx">http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx</a>

Annual survey of public sector schemes	The 2017 annual benefit statements were despatched and the Fund will be considering the findings of the Regulator's 2016 annual survey results and any actions required to be implemented relating to governance, internal controls, record keeping and member communication.	<a href="http://www.thepensionsregulator.gov.uk/docs/public-service-research-2017.pdf">http://www.thepensionsregulator.gov.uk/docs/public-service-research-2017.pdf</a>
<b>FINANCIAL CONDUCT AUTHORITY (FCA)</b>		
CP16/29: Markets in Financial Instruments Directive II	<p>The FCA has set the opt up criteria to take the LGPS decision making characteristics into account. The opt up template for LGPS funds has been issued. APF have opted up</p> <p>New MiFIDII Q &amp;A - A Questions and Answer document has been developed to assist LGPS funds and managers to effectively deal with new relationships post January 2018 when local authorities are default retail clients including conversations at conferences. The document can be found on the MiFIDII home page .</p>	
<b>ITEMS FROM OTHER SOURCES</b>		
DWP commence consultations	<p>On 18<sup>th</sup> June 2018, DWP commenced a consultation entitled <i>Pension trustees: clarifying and strengthening investment duties</i>.</p> <p>The consultation seeks views on the draft Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 and does not contain proposals which would directly impact the LGPS, as it covers trust-based pension schemes alone. However, the draft regulations have been consulted upon to tackle issues that also affect the LGPS and we understand the Scheme Advisory Board for England and Wales intend to respond to the consultation.</p>	
European Court	<p><b>European Court of Justice ruling on transgender rights</b></p> <p>The European Court of Justice has ruled in favour of a transgender woman who was refused payment of her UK state pension in 2008 at age 60 (on the grounds that she did not have a Gender Recognition Certificate (GRC)).</p> <p>The LGPS Secretariat will provide further information regarding the impact of this case for the LGPS in a future bulletin.</p>	
DWP: Pension's Dashboard	<p><b>Pensions dashboard – results of feasibility study delayed</b></p> <p>In bulletin 167, we reported that DWP were conducting a feasibility study to explore the options for delivering the dashboard and that this was due to be published at the end of March 2018.</p>	

	The findings of this feasibility study have still to be published. Given it is now less than a year until the dashboard was originally due to launch (in April 2019), this would appear to make these timescales increasingly difficult to achieve.	
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Those highlighted in Grey are those previously reported but no further developments or updates have occurred

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Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD	
MEETING DATE:	19 July 2018	AGENDA ITEM NUMBER
TITLE:	FUND GOVERNANCE FRAMEWORK	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Terms of Reference for Committee and Investment Panel Appendix 2 – Draft Governance Compliance Statement		

## **1 THE ISSUE**

- 1.1 This report was presented to the Pensions Committee at its meeting in June 2018. It is an annual report to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.
- 1.2 The Draft Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. The Terms of Reference will be approved by Council later in the year when the Committee's Annual Report is presented to Council.
- 1.3 The Governance Compliance Statement reflects the relationship with the Oversight Board of Brunel Pensions Partnership.
- 1.4 The report invites members to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.
- 1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.
- 1.6 It should be noted that there maybe further changes to the Fund's governance arrangements as the transition of assets to Brunel begins from 2018/19 onwards.

## **2 RECOMMENDATION**

### **That the Board notes that the the Committee:**

- 2.1 Noted the roles and responsibilities of the members, advisors and officers
- 2.2 Approved the revised Terms of Reference of the Committee and Investment Panel subject to the following amendment for the Investment Panel:  

“Monitor the investment performance of the portfolios managed by Brunel” should be amended to “Monitor the transition of assets to Brunel and the investment performance of the portfolios managed by Brunel”
- 2.3 Approved the Governance Compliance Statement
- 2.4 Agreed the membership of the Investment Panel

- 2.5 Agreed the member(s) to represent the fund on the Local Authority Pension Fund Forum.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no financial considerations as this report is for information only.

### **4 ROLES & RESPONSIBILITIES**

- 4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

#### **The Committee and Investment Panel:**

- 4.2 The draft Terms of Reference for the Committee, including the Investment Panel, can be found in Appendix 1. These have been revised to reflect the impact of pooling and reflect that assets will gradually begin to transfer to the portfolios offered by Brunel Pension Partnership (Brunel) from April 2018 and that during the transition period the responsibility for implementing the investment strategy will be both the Fund's and Brunel's. Once agreed by Committee, Council will be asked to approve the revised ToR later in the year.
- 4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.
- 4.4 The Fund will retain responsibility for its incumbent investment managers until the each mandate transfers to the portfolios offered by Brunel. At that point, Brunel will be responsible for appointing managers to manage the assets within each portfolio, monitoring the managers and reporting back to the Fund about the performance of each portfolio. Therefore during 2018-2020, the responsibility for implementing the Fund's investment strategy will gradually transfer from the Fund to Brunel. The Fund will remain responsible for all strategic decisions such as asset allocation and the risk management framework.
- 4.5 Membership of the Investment Panel is drawn from the voting members of the committee.
- 4.6 The Chair of the Committee is the Fund's current representative on the Brunel Oversight Board of the Brunel Pension Partnership.
- 4.7 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.
- 4.8 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.
- 4.9 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members are required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds when they are appointed to the committee.

- 4.10 The Committee Training plan is reviewed at each quarterly committee meeting. It includes training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.

**Fund Advisors:**

- 4.11 The guidance on preparing and maintaining an investment strategy statement in support of the LGPS (Management and Investment of Funds) Regulations 2016, regulation 7(2)(a) states “Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.” Regulation 7(2)(b) states that the Fund must “take and act on proper advice in assessing the suitability of their investment portfolio” and regulation 7(2)(e) states “When making investment decisions, administering authorities must take proper advice and act prudently”
- 4.12 The principles for effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG).

*Principle 1: Effective decision-making - requires that “administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively... and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive...”.*

- 4.13 All advisory appointments are appointed under a separate procurement process which will follow the Council’s procurement policy. National LGPS procurement frameworks are used where possible as it is a more efficient procurement route and the frameworks are closely monitored for value for money and service levels.
- 4.14 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee’s agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund’s investment strategy and the managers’ performance.
- 4.15 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the Local Government Pension Scheme Regulations 2013. Regulation 62(1) states that “An administering authority must obtain (a) an actuarial valuation” and (b) “a report by an actuary in respect of the valuation”.
- 4.16 The Fund is externally audited annually and the Committee considers the governance report submitted by the auditor at the end of the audit. Currently the Council’s Corporate Audit Committee approves the Fund’s Financial Statement as it forms part of the Council’s Financial Statement.
- 4.17 Internal audit undertakes work annually on different aspects of the pension fund, covering new regulations, high risk projects, fraud, governance and process reviews. The Committee reviews all Internal Audit reports and proposed management actions.

**Fund Officers:**

- 4.18 The officers’ role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, and that all information regarding investment, financial and

administrative issues is provided to the Committee/Panel. In addition, the officers are responsible for implementing Fund policy. The Council's Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.

- 4.19 The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted with the Chair of the Committee where possible. For investment policy issues the Section 151 Officer will also consult with the Chair of the Investment Panel where possible.

## **5 GOVERNANCE COMPLIANCE STATEMENT**

- 5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The statement has been updated to reflect the pooling of the investments, specifically that the Committee must nominate a member to represent the Fund on the Oversight Board of Brunel Pension Partnership.

- 5.2 The Committee are asked to approve the draft Statement in Appendix 2.

## **6 NOMINATIONS TO INVESTMENT PANEL**

- 6.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.
- 6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was confirmed by B&NES Council at its meeting on 10 May 2018.
- 6.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting in each year.
- 6.4 Members are invited to nominate themselves to the Panel.

## **7 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEETINGS**

- 7.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises its members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.

7.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Richard Orton and Councillor Steve Pearce have represented the fund at these meetings during the past year. Members are invited to nominate themselves to represent the fund at these meetings (there can be up to two member representatives from the Fund attending any meeting).

## **8 RISK MANAGEMENT**

8.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

## **9 EQUALITIES**

9.1 For information only.

## **10 CONSULTATION**

10.1 Not relevant.

## **11 ISSUES TO CONSIDER IN REACHING THE DECISION**

11.1 The relevant information is set out in the report.

## **12 ADVICE SOUGHT**

12.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Liz Woodyard, Investments Manager 01225 395306
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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## **TERMS OF REFERENCE**

### **1 Avon Pension Fund Committee**

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund.

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel will gradually become responsible for implementing the Fund's Investment Strategy. The Fund's assets will transfer to portfolios offered by Brunel from April 2018 with most of the quoted assets transferring within 3 years. Once Avon's assets are within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of Brunel. The Terms of Reference reflects this transition.

#### **Function and Duties**

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy. For assets managed by Brunel this is limited to allocating to the relevant portfolio offered by Brunel.
4. Monitoring the performance of investments, scheme administration, and external advisors. Monitoring the performance of investment managers for assets held outside Brunel pool. Monitoring the performance of Brunel and its portfolios.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's workplan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.

9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

### **Delegations**

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out in Sections 2 & 3 below.

### **Membership of the Committee**

Voting members (12)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 2 independent members 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council 1 nominated from the Higher and Further education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

The Council will nominate the Chair of the Committee.

### **Meetings**

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

### **Quorum**

The quorum of the Committee shall be 5 voting members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

### **Substitution**

Named substitutes to the Committee are allowed.

## **2 Investment Panel**

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges that are not managed within Brunel pool.
5. Approve investments in emerging opportunities within strategic allocations that are not managed within Brunel pool.
6. For assets held outside Brunel, implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.
7. Approve amendments to investment mandates for assets held outside Brunel pool within existing return and risk parameters.
8. For assets held outside Brunel, monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Monitor the investment performance of the portfolios managed by Brunel.
10. Delegate specific decisions to Officers as appropriate.

### **Panel Membership**

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

The Council will nominate the Chair of the Panel.

### **Panel Meetings**

Though called a "Panel", it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

### **Panel Quorum**

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

### **Panel Substitution**

Substitutes for the Panel must be members of Committee or their named Committee substitute.

### **Panel Minutes**

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

## **3 Officer Delegations**

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. Approve investments in emerging opportunities within strategic allocations, to be managed within Brunel pool, in consultation with the Investment Panel.
3. Implement investment management arrangements in line with the strategic policy, including the setting of mandate parameters and the appointment of managers to be managed within Brunel pool, in consultation with the Investment Panel.
4. Appointment of specialist advisors to support the Committee in discharging its functions.
5. The Section 151 Officer has authority to dismiss investment managers, advisors and 3<sup>rd</sup> party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
6. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
7. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
8. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
9. Through delegations from Council, the S151 Officer has authority to progress the development of Brunel Pension Partnership pool.

To be approved by Avon Pension Fund Committee 22 June 2018

## Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 (as amended) require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

Statutory Governance Principles	Compliance status and justification of non-compliance
A - Structure	Compliant
<p>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> <p>b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>Bath &amp; North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice.</p> <p>The APFC consists of 12 voting members, viz:</p> <ul style="list-style-type: none"> <li>- 5 elected members from Bath &amp; North East Somerset Council</li> <li>- 3 elected members from the other West Of England unitary councils</li> <li>- 1 nominated by the trades unions</li> <li>- 1 nominated by the Higher/Further education bodies</li> <li>- 2 independent members</li> </ul> <p>and 4 non-voting members, viz:</p> <ul style="list-style-type: none"> <li>- 3 nominated by the trades unions</li> <li>- 1 nominated by the Parish/Town Councils</li> </ul> <p>The Avon Pension Fund has a sub-committee, the Investment Panel, to consider matters relating to the management and investment of the assets of the Fund in greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes of Investment Panel meetings form part of the main committee agenda.</p>

- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.
- e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established

Every member of the Investment Panel is a member of the main committee.

The Board's remit is to assist the administering authority to

- (i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and
- (ii) ensure the effective and efficient governance and administration of the Scheme.

The Pension Board comprises 7 members, 3 employee members, 3 employer members and an independent chairperson. Employer and employee members have voting rights.

The Board will publish an annual report to Council containing any recommendations on process or governance. The Board will report any material concerns to the S151 Officer.

Board minutes will be circulated to the administering authority (the Pension Committee), S151 Officer and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator.

Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pension Committee) the Board shall:

1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board
2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach
3. The Board will determine action and if sufficiently material will report the

<p>f) The Avon Pension Fund is represented on the governance arrangements of Brunel Pension Partnership.</p>	<p>breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.</p> <p>The Fund has established an FCA regulated company (Brunel) with 9 other LGPS funds which will implement the investment strategies of all 10 funds (known as the Brunel Pension Partnership). The Fund will allocate its assets to portfolios offered by Brunel in line with the Investment Strategy agreed by the Committee.</p> <p>The Chair of the APFC represents the Avon Pension Fund on the Brunel Oversight Board (BOB). The Investments Manager represents the Fund on the Client Group, a practitioner group to support BOB and engage directly with Brunel.</p> <p>Minutes of BOB meetings are included in Pension Fund Committee and Pension Board agendas.</p>
<p><b>B – Representation</b></p>	<p><b>Partial Compliance</b></p>
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <p>i) employing authorities (including non-scheme employers , e.g. admission bodies);</p> <p>ii) scheme members (including</p>	<p>There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders.</p> <p>There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.</p> <p>There are up to 4 trades union representatives (1 with voting rights and 3 non-</p>

<p>deferred and pensioner scheme members);</p> <p>iii) where appropriate, independent professional observers;</p> <p>iv) expert advisors.</p> <p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.</p> <p>The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, committee and decision-making process.</p> <p>Furthermore, two members are appointed to the committee independent of the administering authority and other stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit.</p> <p>The Fund's investment consultant attends all committee and panel meetings and other expert advisors, such as the Scheme Actuary, attend on an adhoc basis when appropriate.</p> <p>All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.</p>
<p><b>C – Selection and role of lay members</b></p>	<p><b>Compliant</b></p>
<p>a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee.</p> <p>Declarations of interest is a standing item on every committee agenda.</p>

<b>D – Voting</b>	<b>Compliant</b>
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.
<b>E – Training/Facility time/ Expenses</b>	<b>Compliant</b>
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the committee agenda. A training log is maintained.
<b>F – Meetings (frequency/quorum)</b>	<b>Compliant</b>
a) That an administering authority's main committee or committees meet at least quarterly.	The committee meetings are held quarterly.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings.

c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Lay members are included in the formal arrangements.
<b>G – Access</b>	<b>Compliant</b>
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
<b>H - Scope</b>	<b>Compliant</b>
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
<b>I – Publicity</b>	<b>Compliant</b>
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

***To Be Approved by Avon Pension Fund Committee on 22 June 2018***

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD	
MEETING DATE:	19 JULY JUNE 2018	AGENDA ITEM NUMBER
TITLE:	SCHEME EMPLOYERS & ADMISSION BODIES UPDATE	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report :		
Exempt Appendix 1 – Employer Analysis [to be tabled at meeting]		

## **1 THE ISSUE**

- 1.1 This report provides information about the changes in scheme employers and admission bodies occurring within the Fund since the 2016 valuation.
- 1.2 It also provides a summary of the revised Covenant process being implemented as a result of the increased number of employers in the Fund.
- 1.3 It also considers the impact of the LGPS (Amendment) Regulations 2018 which entitles scheme employers to receive an exit credit payment from the Fund. This became effective for exiting Employers after 18 May 2018.

## **2 RECOMMENDATIONS**

### **That the Pension Board:-**

- 2.1 Notes the information in this report

### 3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial costs to consider. However the payment of exit credits to employers could have a slightly negative impact on cashflow. However, the working cash balance will be sufficient to meet payments in most cases. There may be additional actuarial costs as a result of the extra work.

### 4 NEW EMPLOYERS AND EMPLOYER EXITS

- 4.1 The number of scheme employers has increased as follows:

**Table 1:**

Employer type	31/03/2016	31/03/2017	31/03/2018
Unitary Authorities	5	5	6
Further/Higher Education bodies	8	8	8
Academies	120	150	195
Parish/Town Councils and connected entities	36	36	36
Community Admission Bodies	17	17	16
Transferee Admission bodies	44	82	104
Total	230	298	365
Exits		6	19

- 4.2 At 31 March 2016 there were 230 scheme employers. There are now in excess of 365 scheme employers with continuing “fragmentation” of the employer base.
- 4.3 **Academies:** The main increase has been in academies (which are scheduled bodies and therefore have the right to join the scheme). There are currently 212 academies in the Fund. All new Academies are directed by the Regional Schools Commissioner to join a Multi Academy Trust (MAT) and the distribution of Academies in MAT’s in the Fund is shown in Table 2 below.
- 4.4 There continues to be a large number of academy conversions (there are 73 in the current pipeline). In addition, 1 academy is closing, there have been 5 MAT mergers/disintegrations with another in progress, so the sector is in a state of constant change. Significant resources are dedicated to managing these employers and the Fund’s processes have evolved to efficiently manage the volume of work.
- 4.5 The LGPS Scheme Advisory Board are reviewing the administration of academies within the LGPS to understand the options to standardise the approach taken by administering authorities.

**Table 2:**

Number of Academies in the Trust	Number of Multi Academy Trusts of this size	
1	35	stand alone academies
2	4	
3	1	
4	5	
5	3	
6	3	
7	2	
8	2	
9	2	
10	2	2 MAT's each with 10 academies
13	1	1 MAT with 13 academies
16	2	2 MAT's each with 16 academies

**4.6 Transferee Admission Bodies (TAB's):** over the last 2 years more than 140 new admission bodies have joined the Fund. TAB's are usually private sector companies where there is a commercial contract in place between them and the outsourcing employer. For these bodies the Fund's policy is that the pension liabilities are guaranteed by the outsourcing scheme employer. Some outsourcing employers require a TAB to have a bond in place to protect them if the TAB becomes insolvent. TAB's generally have relatively short contract terms resulting in an increase in the number of exits as the commercial contracts expire or the last member leaves in addition to the new admissions. The increase in the number of TAB's is due to the outsourcing of schools catering and cleaning by maintained schools and academies and also outsourcing of care contracts by unitary authorities.

**4.7 Community Admission Bodies (CABs):** These bodies provide a service to the local community but not as a result of an outsourcing; as a result they have historically been funded from public sources. The number of CABs in the scheme is stable. As new CAB's are required to be guaranteed by a scheme employer or a more prudent funding basis is adopted and security sought, few bodies elect to be admitted to the scheme and most are historic admissions before guarantees were permitted. When a CAB leaves the scheme any deficit must be paid in full if there is no guarantee from a scheme employer. If immediate repayment of the deficit is likely to put the financial viability of the organisation at risk, a payment plan is agreed in line with the LGPS Regulations.

**4.8 Parish/Town Councils and connected entities:** There are presently 33 Parish / Town Councils in the Fund plus 3 connected/controlled entities. These bodies can take various forms but one common feature is that their funding generally comes from the public sector (through raising taxes or funding) and they provide services for the public sector. The security of the funding sources varies which means that, in terms of being able to meet

their pension liabilities, some bodies pose a greater risk to the Fund than others.

- 4.9 The LGPS Regulations 2013 require all new admission bodies to be guaranteed or have a bond in place to protect the Fund. However, the Fund has adopted this policy since December 2005.

## 5 2018 COVENANT PROCESS

- 5.1 The objective of the Fund's covenant work is to reduce the financial risk to the Fund of an employer defaulting and leaving the Fund with a deficit. It also monitors the financial strength of scheme employers which feeds into the valuation in determining the affordability and level of contributions to be set.
- 5.2 A risk based process is being adopted to systematically identify higher risk employers according to specific risk triggers. This approach is taken as it is not possible to evaluate in detail all the employers in the Fund. The process generates a "risk score" as shown in the Table 3 below. A higher risk employer includes those who do not have a guarantee or tax raising powers and that either have a low funding level or a large deficit. It does not make an assessment of their financial strength.

**Table 3:**

<b>Risk Score</b>	<b>Criteria</b>
<b>2</b>	Less than 80% funded (guaranteed employers ongoing basis; non-guaranteed CB basis)
<b>2</b>	Funding deficit £0.5m or more
<b>2</b>	No guarantor or tax/toll raising powers, or concerns about guarantee agreement
<b>2</b>	No security or inadequate security
<b>1</b>	3 or less active members
<b>Use data to calculate risk score and RAG for each employer:</b>	
<b>4+</b>	Red
<b>1-4</b>	Amber
<b>0</b>	Green

- 5.3 Having scored all the employers, the employers that pose greatest risk to the Fund are identified and are prioritised for further financial assessment which will be used when considering contribution levels and affordability at the 2019 valuation.

- 5.4 The results indicate that there are 10 “higher risk” employers, which is consistent with our expectations following work done at the 2016 valuation. They are mainly Tier 3 Employers (these are scheduled bodies that do not benefit from local or national tax payer backing and admitted bodies that joined the Fund before guarantees were permitted). There are in total 18 Tier 3 employers in the Fund; 8 of these employers were either in surplus or the funding deficit was under £0.5m or there were other mitigating circumstances. Exempt Appendix 1 summarises the 10 “higher risk” employers identified for review in the next 3 months
- 5.5 In addition as part of the covenant process the following will be undertaken:
- (1) a review of the guarantees and security currently in place to ensure they are enforceable and our reliance on them is valid
  - (2) a review of major employers where either a default would have a material impact on the Fund or where they face significant funding pressures; this will inform affordability considerations at the next valuation
  - (3) a review a small selection of employers in each employer category so that we are well informed about funding and restructuring changes in the sector and possible impacts on the Fund
  - (4) ad hoc reviews in response to known or emerging risks such as exited employers on payment plans

## **6 EXIT CREDITS - (AMENDMENT) REGULATIONS 2018**

- 6.1 The change in Regulations affecting the arrangements when employing bodies exit the Fund comes at a time when funding levels have improved significantly since the last valuation due to strong asset returns. The current estimate is that there are c. 60 employers with surpluses totalling £3.3m. There are 27 employers that potentially have contract end dates in the next 12 months and these have surpluses totalling c. £394k. As the regulations came into effect on 18 May, there are 4 admissions that ended on 1 June 2018 with surpluses of circa £200k which will be repaid to the contractors under the new Regulations. As a consequence of the new regulations, the repayment of surpluses to employers will effectively mean they receive an unexpected ‘windfall’. In the case of “pass through” contracts there is a potential inequity as the outsourcing employer will have borne the risk of a deficit but will not receive the surplus. It is the responsibility of the outsourcing employer to recover the surplus from the contractor, which will test the efficacy of the commercial agreements which they have in place. This arises because the contracts were not drafted with this regulation change in mind.
- 6.2 The Fund has taken legal advice to clarify the legal position of making refunds to exiting employers. In addition, the Actuary’s opinion has been sought in respect of potential changes (as a result of the new regulations) to the Fund’s exit and termination policies as currently set out in the Funding Strategy Statement (FSS) including the appropriate valuation basis for when an employer exits.

- 6.3 Once the exit and termination policies have been revised the FSS will be updated and employers will be informed of the changes and how it will impact the contracts with admission bodies. Changes to the FSS will be considered by Committee.
- 6.4 As these changes will affect some scheme employers immediately we are already assisting where there are outsourcings or exits in progress.

## **7 RISK MANAGEMENT**

- 7.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Assessing the strength of an employing body's covenant is a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process has been prepared. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and for supporting the Investments Manager in managing the financial and liability risk.
- 7.2 The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund explores a number of options in consultation with the individual bodies to obtain greater security for the liabilities e.g. through a charge on any assets the organisation may have. The aim is to maximise the employer contributions having taken into account the employer's financial situation, which means that the future viability of the employer is an important consideration. In short, each body is treated on a case-by-case basis as their particular circumstances vary significantly, the relationship with their main funder (usually a local authority or academy trust) being a major factor.

## **8 EQUALITIES**

- 8.1 An equalities impact assessment is not necessary.

## **9 CONSULTATION**

- 9.1 N/a

## **10 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 10.1 Are contained in the report.

## **11 ADVICE SOUGHT**

- 11.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Liz Woodyard, Investments Manager 01225 395306
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>LOCAL PENSION BOARD</b>
MEETING DATE:	<b>19 July 2018</b>
TITLE:	<b>PENSION FUND ADMINISTRATION GDPR IMPLEMENTATION UPDATE</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b> Appendix 1 – GDPR Project Plan Appendix 2 – Full Privacy Notice Appendix 3 – Memorandum of Understanding	

## **1 THE ISSUE**

- 1.1 The purpose of this report is to present to the Pension Board a summary of the Fund's implementation of the General Data Protection Regulation (GDPR) 2016 which came into force on 25<sup>th</sup> May 2018.
- 1.2 While GDPR builds on the principles established by the 1998 Data Protection Act, there are a number of actions that Pensions Schemes are required to take to achieve compliance.
- 1.3 The Fund has reviewed requirements provided by the Information Commissioners Office (ICO) and worked with B&NES Council Data Protection Officer (DPO) in developing a project plan to assist in the implementation of GDPR.

## **2 RECOMMENDATION**

The Board is asked to note the Fund's progress on the implementation of GDPR

## **3 BACKGROUND**

- 3.1 Since 1948 various pieces of legislation on data protection have been introduced, most notably the Data Protection Act 1998, which set down eight overarching principals. The GDPR, effective from 25<sup>th</sup> May 2018 has brought about a sea change of in the way that data processing is regulated across the entirety of the EU.

- 3.2 The introduction of the GDPR has been in response to the changing ways in which personal data is managed. In particular, the use of software and the communication and controlling of transferred personal data via the internet. Personal data is now recognised as a commodity, and whilst the Fund has already protected that commodity in accordance with the Data Protection Act 1998, it is now required to ensure that the protections are appropriate for the modern age.
- 3.3 As at 31<sup>st</sup> March the Fund membership was estimated at 110,225. Each member record contains multiple items of personal data. The Pension Regulator (tPR) categorises this personal data in terms of common and conditional (scheme specific) data and in turn sets the Fund quality standards by which that data must be measured and maintained.
- 3.4 Whilst the Pensions Regulator sets the quality standards, it is the ICO that oversees the requirements of GDPR, in particular the Fund's management of personal data and its right to lawfully process it. As a Data Controller, the Fund on behalf of Bath & North East Somerset Council is therefore required to undertake a review of its policies and procedures to ensure that all parties involved in the management of members personal data are compliant with GDPR requirements.

#### **4 KEY STEPS TAKEN BY THE FUND TO COMPLY WITH GDPR**

- 4.1 The Fund has completed the ICO self-assessment checklist in conjunction with the 12 step GDPR preparation guide to produce a comprehensive project plan (Appendix 1). A number of key Fund actions have been identified, in particular;
- to undertake a data mapping exercise, including flowcharts to identify data flows and the processes being applied to such data. As part of the exercise all risks identified will be RAG rated.
  - to undertake DPIA to ensure that all significant changes made by the Fund which impact on the processing of personal data are validated.
  - to undertake a review of the process for ill health retirements to ensure explicit consent satisfied.
  - to undertake to review all 3<sup>rd</sup> party contracts to ensure GDPR compliant
  - Training – all staff are required to undertake B&NES online training module. Training undertaken is monitored and recorded. Currently 95% of admin staff have undertaken the e-learning module.

#### **5 COMMUNICATION ACTIVITY**

- 5.1 The GDPR requires additional content to be included in all privacy notices regarding how personal data will be used by data controllers. The administration authority, as a data controller, must tell anyone whose personal data they collect what information is held, how it is used, who it may be shared with and what safeguards are in place.
- 5.2 A privacy notice template was produced by the LGA in conjunction with their legal advisors. APF adopted and adapted this template which was ratified by

B&NES DPO (Appendix 2). The privacy notice has been published on the Funds member website prior to 25<sup>th</sup> May.

5.3 Reference to data protection and the privacy notice is now included on all Fund administration letters, forms, factsheets and new member information packs, with a link to the full privacy notice on the website.

5.4 In addition to information on the member website, information articles on GDPR have been included in publications of newsletters for all active, deferred and pensioner members.

5.5 The *my pension online* system, where members can access their own pensions data via a secure online portal, now has a consent element, which members have to check in order to access the system. The system also retains their acknowledgement of consent.

## **6 MEMORANDUM OF UNDERSTANDING FOR SCHEME EMPLOYERS**

6.1 The LGA produced a template for a memorandum of understanding (MOU) for Scheme Employers (Appendix 3). This document sets out expectations and standards required between the two data controller organisations.

6.2 Under GDPR there is no legal requirement to have individual signed agreements between the Fund and Scheme Employer. The fund adopted the template before communicating it to all employers (350+) in May. The MOU will be incorporated in each employer service level agreement when the Pensions Administration strategy is reviewed later this year.

## **7 NEXT STEPS**

7.1 GDPR became effective from 25<sup>th</sup> May 2018. The Fund has commenced various activities with the aim of working towards full compliance. Progress against the Project Plan will be presented at future Pension Board and Pension Committee meetings for approval.

7.2 Once established the Fund will undertake a periodic review of GDPR arrangements to ensure continued compliance with its principals as determined by the ICO.

## **8 RISK ASSESSMENT**

8.1 There are no direct risks to the Fund associated with this report although any failure to hold personal data securely is covered under R05 on the Risk Register.

## **9 EQUALITIES**

9.1 No items in this report give rise to the need to have an equalities impact assessment

## **10 CONSULTATION**

10.1 None appropriate

## **11 ISSUES TO CONSIDER IN REACHING THE DECISION(S)**

11.1 There are no issues to consider not mentioned in this report.

## 12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Strategic Director of Resources) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Geoff Cleak – Pensions Manager; Tel 01225 395277</i>
<b>Background papers</b>	<i>Various GDPR documentation and guidance information issued by Information Commissioners Office.</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## GDPR Project Plan

## Appendix 1

following ICO self-assessment checklist & 12 Steps to take now – these are the actions required by APF to work towards GDPR compliance

Action identified	By who	Timescales	Actions completed	Date completed
Data Flow Mapping Exercise	CM	June 2018	Started	
Set up & maintain record of Processing Activities	CM	June 2018	BANES ROPA has a pensions entry. Further meeting with DPO arranged for end of July	
Review any areas where 'Consent' is required eg MSS	SM / CM		MSS consent box added	May 2018
	CM	June/July 2018	Ill Health Retirement member consent required	
Review and amend Privacy Notice	SM	May 2018	Privacy Notice published	May 2018
Memorandum of Understanding to all employers	SM	May 2018	MOU issued to all employers	May 2018
Consider how to meet data portability requirements	Heywood / IT	To be agreed		
Review procedures for dealing with Subject Access Requests & objections to processing & erasing data	KS	To be agreed		
Make up process and carry out Data Protection Impact Assessments	CM / SM	To be agreed		
Review all contracts with 3rd parties and ensure GDPR compliant & write to them / send questionnaire	GC/Legal	Ongoing	Currently reviewing all internal & external contracts to ensure updated to comply with GDPR	
Review processes for transferring data outside Europe	KS	To be agreed	Template discharge forms, produced by LGA, will be updated to include a line that where data is being transferred outside of EU it may be subject to different data protection legislation and that by signing the form the member is agreeing to that. We will adopt the amended forms once available.	
Review Data Held (especially sensitive data) Consider minimisation & Retention Schedule	KS / CM	To be agreed		
Review Data Protection Training for staff, Pension Committee & Board	CM / KS	By end July 2018	All staff have completed e-Learning module Awareness sessions added to Team Meeting agenda	May 2018 May 2018

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## **PRIVACY NOTICE**

### **Members and beneficiaries of the Avon Pension Fund**

This notice has been prepared by Bath and North East Somerset Council.

We are the designated "Administering Authority" for the Avon Pension Fund.

We are also the Data Controller for personal information which we collect about members and beneficiaries of the Fund.

#### **Why we are providing this notice to you**

As the Data Controller of the Fund we hold certain information about you ("personal data") which we use to administer the Fund and to pay benefits from it. This notice is designed to give you information about the data we hold about you, how we use it, your rights in relation to it and the safeguards that are in place to protect it.

#### **Lawful use of your data**

We hold personal data about you in our capacity as data controller for the proper handling of all matters relating to the Fund, including its administration and management. This includes the need to process your data to contact you, to calculate, secure and pay your benefits, for statistical and financial modelling and for reference purposes (for example, when we assess how much money is needed to provide members' benefits and how that money should be invested), and to manage liabilities and administer the Fund generally. Further information about how we use your personal data is provided below.

The legal basis for our use of your personal data is that it is necessary:

- a) to satisfy our legal obligations as the designated Administering Authority of the Fund; and/or
- b) to exercise our official authority to provide and manage the fund within the framework of the Local Government Pension Scheme and/or
- c) to meet our contractual obligations to you in relation to the Fund (for example, under an agreement that you will pay additional voluntary contributions to the Fund), or to take steps, at your request, before entering into a contract.

#### **What personal data we hold, and how we obtain it**

The types of personal data we hold and process about you include:

- Contact details, including name, address, telephone numbers and email address.
- Identifying details, including date of birth, national insurance number and employee and membership numbers.

- Information that is used to calculate and assess eligibility for benefits, for example, length of service or membership and salary information.
- Financial information relevant to the calculation or payment of benefits, for example, bank account and tax details.
- Information about your family, dependents or personal circumstances, for example, marital status and information relevant to the distribution and allocation of benefits payable on death.

We obtain some of this personal data directly from you. We may also obtain data (for example, salary information) from your current or past employer(s) or companies that succeeded them in business, from a member of the Fund (where you are or could be a beneficiary of the Fund as a consequence of that person's membership of the Fund) and from a variety of other sources including public databases (such as the Register of Births, Deaths and Marriages), our advisers and government or regulatory bodies, including those in the list of organisations that we may share your personal data with set out below.

### **Our use of "Special Categories" of personal data**

In some circumstances we will need to process "special categories" of personal data in order to calculate and pay appropriate benefits to you. This includes

- Information about your health, for example, to assess eligibility for benefits payable on ill health, or where your health is relevant to a claim for benefits following the death of a member of the Fund.
- Information about a criminal conviction if this has resulted in you owing money to your employer or the Fund and the employer or Fund may be reimbursed from your benefits.

Where we obtain and use information concerning certain "special categories" of personal data, such as your health information, there are special criteria we must meet to ensure our processing is lawful. Generally it will be lawful where it is necessary for the purposes of carrying out our official obligations and responsibilities regarding our administration and provision of Local Government Pensions.

### **Information about others**

Where you have provided us with personal data about other individuals, such as family members, dependants or potential beneficiaries under the Fund, please ensure that those individuals are aware of the information contained within this notice.

### **How we will use your personal data**

We will use this data to deal with all matters relating to the Fund and in-house AVC arrangements, including its administration and management. This can include the processing of your personal data for all or any of the following purposes:

- to contact you.
- to assess eligibility for, calculate and provide you (and, if you are a member of the Fund, your beneficiaries upon your death) with benefits.
- to identify your potential or actual benefit options.

- for statistical and financial modelling and reference purposes (for example, when we assess how much money is needed to provide members' benefits and how that money should be invested).
- to comply with our legal and regulatory obligations as the administering authority of the Fund.
- to address queries from members and other beneficiaries and to respond to any actual or potential disputes concerning the Fund.
- the management of the Fund's liabilities, including the entering into of insurance arrangements and selection of Fund investments.
- in connection with the sale, merger or corporate reorganisation of or transfer of a business by the employers that participate in the Fund and their group companies.

### **Organisations that we may share your personal data with**

From time to time we will share your personal data with advisers and service providers so that they can help us carry out our duties, rights and discretions in relation to the Fund. Some of those organisations will simply process your personal data on our behalf and in accordance with our instructions. Other organisations will be responsible to you directly for their use of personal data that we share with them. They are referred to as data controllers and we have highlighted them in the table below. You will be able to find out about their own data protection policies (which will apply to their use of your data) on their websites.

These organisations include the Fund's:

<b>Data processors</b>	<b>Data controllers</b>
<ul style="list-style-type: none"> <li>• Tracing bureaus for mortality screening and locating members – currently Lexis Nexis, Accurate Data Services, ATMOS (UK mortality screening) and Western Union (for overseas mortality screening)</li> <li>• Overseas payments provider to transmit payments to scheme member with non-UK accounts – currently Western Union</li> <li>• Printing companies – currently Bath &amp; North East Somerset Council Print Services</li> <li>• Pensions software provider – currently Aquila Heywoods Ltd and i-Connect</li> <li>• Suppliers of IT, document production and distribution services</li> </ul>	<ul style="list-style-type: none"> <li>• Actuarial consultant – currently Mercer Ltd</li> <li>• Scheme benefit consultant – currently Mercer Ltd</li> <li>• Investment adviser – currently Mercer Ltd</li> <li>• Additional Voluntary Contribution providers – currently Aviva and Equitable Life</li> <li>• Legal adviser – currently Osborne Clarke</li> <li>• Fund Actuary – currently Mercer Ltd</li> <li>• Statutory auditor – currently the Audit Commission</li> <li>• External auditor – currently Grant Thornton</li> <li>• Internal auditor – currently Audit West</li> <li>• LGPS National Insurance database – South Yorkshire Pensions Authority</li> <li>• The Department for Work and Pensions</li> <li>• The Government Actuary's Department</li> <li>• The Cabinet Office – for the purposes of the National Fraud Initiative</li> <li>• HMRC</li> <li>• The Courts of England and Wales – for the purpose of processing pension sharing orders on divorce</li> <li>• Administering authorities of other LGPS funds (or their agents, such as third party</li> </ul>

	administrators) where you have been a member of another LGPS fund and the information is needed to determine the benefits to which you or your dependants are entitled
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In each case we will only do this to the extent that we consider the information is reasonably required for the purposes listed.

In addition, where we make Fund investments or seek to provide benefits for Fund members in other ways, such as through the use of insurance, then we may need to share personal data with providers of investments, insurers and other pension scheme operators. In each case we will only do this to the extent that we consider the information is reasonably required for these purposes.

From time to time we may provide some of your data to your employer and their relevant subsidiaries (and potential purchasers of their businesses) and advisers for the purposes of enabling your employer to understand its liabilities to the Scheme. Your employer would generally be a controller of the personal data shared with it in those circumstances. For example, where your employment is engaged in providing services subject to an outsourcing arrangement, the Administering Authority may provide information about your pension benefits to your employer and to potential bidders for that contract when it ends or is renewed.

Where requested or if we consider that it is reasonably required, we may also provide your data to government bodies and dispute resolution and law enforcement organisations, including those listed above, the Pensions Regulator, the Pensions Ombudsman and Her Majesty's Revenue and Customs (HMRC). They may then use the data to carry out their legal functions.

The organisations referred to in the paragraphs above may use the personal data to perform their functions in relation to the Fund as well as for statistical and financial modelling (such as calculating expected average benefit costs and mortality rates) and planning, business administration and regulatory purposes. They may also pass the data to other third parties (for example, insurers may pass personal data to other insurance companies for the purpose of obtaining reinsurance), to the extent they consider the information is reasonably required for a legitimate purpose.

In some cases these recipients may be outside the UK. This means your personal data may be transferred outside the EEA to a jurisdiction that may not offer an equivalent level of protection as is required by EEA countries. If this occurs, we are obliged to verify that appropriate safeguards are implemented with a view to protecting your data in accordance with applicable laws. Please use the contact details below if you want more information about the safeguards that are currently in place.

We do not use your personal data for marketing purposes and will not share this data with anyone for the purpose of marketing to you or any beneficiary.

### **How long we keep your personal data**

We will only keep your personal data for as long as we need it to administer the Fund and to deal with any questions or complaints that we may receive about this, unless the law requires us to keep it for a longer period or the fund actuary requires it for actuarial purposes. In practice, this means that your personal data will be retained for as long as you (or any beneficiary who receives benefits after your death) are entitled to benefits from the Fund. This data will also be retained indefinitely

when those benefits stop being paid in order that the Fund can assess the longevity of Fund members and therefore contribute to broader research on LGPS pensioner longevity. For the same reason, your personal data will also need to be retained where you have received a transfer, or refund, from the Fund in respect of your benefit entitlement as proof that you no longer have any further benefit entitlement from the Fund.

### **Your rights**

You have a right to access and obtain a copy of the personal data that the Administering Authority holds about you and to ask the Administering Authority to correct your personal data if there are any errors or it is out of date. In some circumstances you may also have a right to ask the Administering Authority to restrict the processing of your personal data until any errors are corrected, to object to processing or to transfer or (in very limited circumstances) erase your personal data.

If you wish to exercise any of these rights or have any queries or concerns regarding our processing of your personal data, please contact our Data Protection team:

[Data\\_protection@bathnes.gov.uk](mailto:Data_protection@bathnes.gov.uk).

You also have the right to lodge a complaint in relation to this privacy notice or the Administering Authority's processing activities with the Information Commissioner's Office which you can do through their website [www.ico.org.uk](http://www.ico.org.uk) or their telephone helpline. (0303 123 1113).

The personal data we hold about you is used to administer your Fund benefits and we may from time to time ask for further information from you for this purpose. If you do not provide such information, or ask that the personal data we already hold is deleted or restricted, this may affect the payment of benefits to you (or your beneficiaries) under the Fund. In some cases it could mean the Administering Authority is unable to put your pension into payment or has to stop your pension (if already in payment).

### **Updates**

We may update this notice periodically. Where we do this we will inform members of the changes and the date on which the changes take effect.

### **Contacting us**

Please contact the Fund administrator [www.avonpensionfund.org.uk/contact-us](http://www.avonpensionfund.org.uk/contact-us) for further information.

### **Data Protection Officer**

You may also contact our data protection officer email: [data\\_protection@bathnes.gov.uk](mailto:data_protection@bathnes.gov.uk) for further information.

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## LOCAL GOVERNMENT PENSION SCHEME

### Memorandum of Understanding regarding Compliance with Data Protection Law

#### 1 INTRODUCTION

1.1 The Local Government Pension Scheme (“LGPS”) in England and Wales is an occupational pension scheme registered under section 153 of the Finance Act 2004 and its rules are currently set out in The Local Government Pension Scheme Regulations 2013 (SI 2013/2356) as amended (“LGPS Regulations”).

1.2 The LGPS is administered locally by administering authorities which are defined in Regulation 2 of the LGPS Regulations and listed in Part 1 of Schedule 3 of the LGPS Regulations.

1.3 Bath and North East Somerset Council (“Administering Authority”) is an administering authority under the LGPS Regulations. The Administering Authority manages and administers the Avon Pension Fund pension fund within the LGPS (the “Fund”) in accordance with its statutory duty under Regulation 53 of the LGPS Regulations. Employers employing employees who are eligible to be members of the LGPS will participate in the Fund as a “Scheme Employer” (as defined in schedule 1 of the LGPS Regulations). The Administering Authority and the Scheme Employer (together the “Parties”) are required to share personal data relating to the Scheme Employer’s current and former employees who participate in the Fund (the “Members”) and their dependants, in order for the Administering Authority to fulfil its statutory duties to manage and administer the Fund under Regulation 53 of the LGPS Regulations and provide the Members with benefits upon retirement, pay ill-health benefits, pay death grants, pay survivors’ pensions to Members’ spouses, civil partners and co-habiting partners, pay children’s pensions upon the death of the Member, offer Members the option of paying additional voluntary contributions to one or more providers in accordance with Regulations 1 – 52 of the LGPS Regulations.

1.4 Scheme Employers are under a statutory obligation, as detailed in Regulation 80 of the LGPS Regulations, to provide certain personal data relating to its Members on an annual basis to the Administering Authority, including the Member’s name, gender, date of birth, national insurance number, pensionable pay, employer and employee pension contributions, details of any additional pension contributions and additional voluntary contributions.

1.5 This Memorandum of Understanding sets out:

- (a) the basis on which data will be shared between the Parties;
- (b) the Administering Authority’s expectations of the Scheme Employer during its participation in the Fund;

in order to comply with Data Protection Law, including the General Data Protection Regulation (2016/679) (“GDPR”) which will have direct legal effect in the UK on and after 25 May 2018.

1.6 References to “Data Protection Law” in this Memorandum of Understanding mean the Data Protection Act 1998, the Data Protection Directive (95/46/EC), the Electronic Communications Data Protection Directive (2002/58/EC), the Privacy and Electronic Communications (EC Directive) Regulations 2003 (SI 2426/2003) (as amended), the General Data Protection Regulation (2016/679) and all applicable laws and regulations relating to personal data and privacy which are enacted from time to time, including (where applicable) the guidance and codes of practice issued by the Information Commissioner’s Office and any other competent authority.

## **2 DATA CONTROLLERS**

2.1 The Parties acknowledge that they will:

- (a) not hold a pool of joint data;
- (b) be separate and independent data controllers in relation to the copies of the Members' personal data they respectively hold;
- (c) act as data controller in relation to personal data transferred to them;
- (d) each be responsible for complying with the requirements in Data Protection Law that are applicable to them as data controllers.

2.2 References to Members' personal data includes personal data relating to the Members' dependants (including children) and spouses/civil partners (where applicable).

## **3 DATA SHARING**

3.1 The Parties confirm that they understand their respective obligations under Data Protection Law as data controllers and agree to only process personal data relating to the Members:

- (a) fairly and lawfully and in accordance with the data protection principles set out in Data Protection Law;
- (b) where there are lawful grounds for doing so; and
- (c) in accordance with Data Protection Law and best practice guidance (including the Data Sharing Code issued by the Information Commissioner's Office and updated from time to time).

3.2 Each Party will separately inform the Members (as required under Data Protection Law) of the respective purposes for which they will each process their personal data and provide all required information to ensure that the Members understand how their personal data will be processed in each case by the Administering Authority or Scheme Employer (as applicable). The Scheme Employer's privacy notice to Members will inform them that their personal data will be provided to the Administering Authority and a copy of that notice will be provided to the Administering Authority on request.

3.3 Each Party confirms that it understands its respective obligations under Data Protection Law, to ensure that the Members' personal data of which it is a data controller is kept and used securely at all times and to take such technical and organisational security measures against unauthorised and unlawful processing of, accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to the Members' personal data transmitted, stored or otherwise processed as may be required. Such measures will have due regard to the state of technological development and the cost of implementation of these measures, to ensure a level of security appropriate to the harm that might result from such processing and the nature, scope, context and purposes of processing the Members' personal data and the risk or likelihood and severity for the rights and freedoms of data subjects. Such measures will ensure:

- (a) the ongoing confidentiality, integrity, availability and resilience of processing the Members' personal data;
- (b) the ability to restore the availability and access to the Members' personal data in a timely manner in the event of a physical or technical incident;
- (c) carrying out of regular testing, assessing and evaluating the effectiveness of technical and organisational measures for ensuring the security of the processing.

3.4 Each Party undertakes to notify the other as soon as practicable if an error is discovered in the Members' personal data of which it is a data controller and which was received from or a copy of which has been provided to the other Party, to ensure that such other Party is then able to correct its own records. This will happen whether the error is discovered through existing data quality initiatives or is flagged up through some other route (such as the existence of errors being directly notified to the Administering Authority or Scheme Employer (as appropriate) by the Member (or the Member's dependants, spouse/civil partner) themselves).

#### **4 TRANSFER OF MEMBERS' PERSONAL DATA**

4.1 The Parties agree that Members' personal data will only be transferred from one Party to the other via an acceptable method specified by the Administering Authority which may include any of the following:

- (a) face to face / telephone
- (b) courier
- (c) secure email / de-personalised email
- (d) access secure websites (for example GlobalScape and i-Connect)
- (e) third party solution as agreed by the Parties

4.2 Each Party will, when transferring the Members' personal data of which it is the data controller to the other Party, ensure that that data is secure during transit (whether physical or electronic).

4.3 If either the Administering Authority or the Scheme Employer appoints professional advisers, third party administrators or another entity which provides other services involving the transfer of Members' personal data, those third parties will be data processors or data controllers in their own right. The Administering Authority or the Scheme Employer (as applicable) will comply with its own obligations in accordance with Data Protection Law (in particular, by ensuring that any entity to which it transfers Members' personal data also complies with Data Protection Law) and shall ensure that that nothing in the terms of engagement between the Administering Authority or the Scheme Employer (as applicable) and such third party would contradict this Memorandum of Understanding.

#### **5 RIGHTS OF MEMBERS (INCLUDING THE MEMBER'S DEPENDANTS, SPOUSES/CIVIL PARTNERS (WHERE APPLICABLE))**

5.1 Each Party shall, in respect of the personal data of which it is a data controller, respond to any requests from Members to have access to any of their personal data or a complaint or enquiry relating to that Party's processing of the Members' personal data received by that Party in line with its own obligations under the Data Protection Law.

5.2 Each Party agrees to provide reasonable assistance to the other as is necessary to enable the other Party to comply with any such requests in respect of Members' personal data of which that Party is a data controller and to respond to any other queries or complaints from Members.

#### **6 DATA SECURITY BREACHES AND REPORTING PROCEDURES**

6.1 Each Party confirms that it understands its respective obligations under Data Protection Law in the event of any personal data breach, unauthorised or unlawful processing of, loss or destruction of or damage to any of the Members' personal data, including (where necessary) an obligation to notify the Information Commissioner's Office and/or the Member(s).

## **7 RESPONSIBILITIES OF SCHEME EMPLOYERS**

7.1 Notwithstanding the statutory obligations which apply to Scheme Employers under the LGPS Regulations and as a data controller under Data Protection Law, the Administering Authority, as Administering Authority for the Fund, expects Scheme Employers participating in the Fund to comply with the responsibilities set out below in relation to Members' personal data.

7.2 On request, the Scheme Employer will inform the Data Protection Officer at the Administering Authority of any appointed qualified person to fulfil the role of data protection officer ("DPO") together with their contact details. If the Scheme Employer has not appointed a DPO, the Scheme Employer, on request, will inform the Data Protection Officer at the Administering Authority of the details of a nominated person for GDPR compliance purposes.

7.3 The Scheme Employer will demonstrate to the Administering Authority's satisfaction when dealing with ill health early retirement applications for current employees that explicit Member consent has been received which gives consent to processing by both the Scheme Employer and the Administering Authority. In the absence of such consent, the Administering Authority may not be able to process the Member's application.

7.4 The Scheme Employer acknowledges the financial penalties that can be imposed by the Information Commissioner's Office in relation to breaches of Data Protection Law and will inform the Administering Authority within 48 hours from the point that it becomes aware that the Scheme Employer may be liable to pay such a financial penalty. The Scheme Employer further acknowledges that any liability it may have to pay a financial penalty to the Information Commissioner's Office may result in a revision of the rates and adjustments certificate in accordance with Regulation 62(7) of the LGPS Regulations.

## **8 COMPLIANCE WITH THE MEMORANDUM OF UNDERSTANDING**

8.1 Failure by the Scheme Employer to comply with the terms set out in this Memorandum of Understanding may result in the Administering Authority taking any or all of the following actions:

- (a) reporting the Scheme Employer's non-compliance to the Information Commissioner's Office;
- (b) any other action which the administration authority deems appropriate and which is within its powers to do so

## **9 REVIEW AND AMENDMENT OF MEMORANDUM OF UNDERSTANDING**

The Administering Authority will review the Memorandum of Understanding annually.

The Administering Authority reserves the right to amend the Memorandum of Understanding at any time and with immediate effect and will provide written notice to the Scheme Employer of such amendment.

Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	19 <sup>th</sup> July 2018	AGENDA ITEM NUMBER
TITLE:	Internal Audit Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1	Internal Audit Report on Brunel Transition	
Appendix 2	Internal Audit Report on Employee Contributions	

## 1 THE ISSUE

1.1 The purpose of this report is to update the Board on Internal Audit activity.

1.2 The report and its appendices are important for the Board to consider in the context of their understanding of the performance and management of the fund.

## 2 RECOMMENDATION

### That the Board

2.1 Notes the report and outcomes from Internal Audit work.

## 3 FINANCIAL IMPLICATIONS

3.1 There are no direct implications related to the Pension Board in connection with this report aside from any additional audit review costs requested by the Board.

## 4 REPORT

### 2017/18 Internal Audit Work

- 4.1 Internal Audit reviews the fund as part of their overall plan across all activities within the Council.
- 4.2 The Board were updated at its February meeting on audit work at this time along with the plan for 2018/19. Two reports were complete at that time and shared with the Board - Pensions Governance (COP 14) and Pensions Transfers & Aggregations.
- 4.3 Since then two further reports – Brunel Transition & Employee Contributions – have been completed and are attached at Appendix 1 and 2.
- 4.4 The audit opinions are positive (Level 5 – Excellent and Level 4 - Good) and there are no significant risk areas to be brought to the board's attention.

4.5 A verbal update will be given at the meeting by the Council's Audit Manager.

## **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 S151 Officer.

<b>Contact person</b>	Jeff Wring, Head of Audit West 01225 477323
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	



# **Internal Audit Report**

## **Confidential**

# **Brunel Transition**

**April 2018**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
<b>Level 5</b>	<b>The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary</b>
<b>Level 4</b>	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
<b>Level 3</b>	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
<b>Level 2</b>	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
<b>Level 1</b>	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

### Assurance Summary:

Assessment	Key Control Objectives
<b>Excellent</b>	There is a robust, up to date project plan in place which has been properly approved and effectively communicated
<b>Excellent</b>	Where there is slippage, appropriate remedial action is taken
<b>Excellent</b>	There are robust risk management arrangements in place
<b>Excellent</b>	New governance and other arrangements are comprehensive, clear and have been agreed by all relevant parties
<b>Excellent</b>	Risks relating to new arrangements have been included in the risk register
<b>Excellent</b>	Senior managers and members are kept properly informed
<b>Excellent</b>	Adequate training has been provided to all relevant parties

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Avon Pension Fund's preparation for the transfer of assets to the Brunel Pension Partnership (BPP). The framework of internal control has been assessed at Level 5 'Excellent'. 1 audit recommendation is detailed in the Action Plan; however this is simply an opportunity suggestion, rather than in response to a weakness identified.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

### Background

In 2015, the Government announced their intention for the 89 Local Government Pension Scheme funds to pool their investments. In response to the government agenda, Project Brunel was set up to explore the options for pooling investment assets across ten funds. The founding funds include the Environment Agency Pension Fund, and the Local Government funds of Avon, Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire.

The Brunel Pension Partnership Ltd was formed in July 2017 and will oversee in the region of £28 billion of investments, including Avon Pension Fund (APF) investments. The objective of pooling assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power the collaboration initiative will produce. Local accountability will be maintained as each individual fund will remain responsible for strategic decisions including asset allocation.

The project stages are:-

- Government call for proposals November 2015
- Stage 1: Develop initial proposal November 2015 - February 2016
- Stage 2: Develop detailed proposal February 2016 - July 2016
- Stage 3: Planning and set up for asset pooling July 2016 - April 2018
- Stage 4: Asset Pooling implementation starting no later than April 2018

This audit focusses on stage 3 of the project.

### Context and Audit Comment

The current audit has been conducted as part of the 2017/18 Audit Plan, and has sought to confirm that preparations for the transfer of assets into the pool have been undertaken in an effective and timely manner.

In order to arrive at our conclusions, we have met with the Avon Pension Fund Investment Manager to discuss processes, and have reviewed a selection of supporting evidence for the processes concerned.

Our overall view is that the Avon Pension Fund has made timely preparations effectively reducing the risks associated with transferring assets into the BPP pool. We have not identified any current slippage, however the transition plan has only recently commenced, so there is little planned progress as yet.

## **Internal Audit Report – Brunel Transition**

Good practice was apparent in a number of areas and there are no issues identified within this report. We have made one low risk recommendation; however this is simply an opportunity suggestion, rather than in response to a weakness identified.

### **We identified the following strengths:**

There are a number of related project plans in place, including an overall BPP Project Plan, Custodian plans relating to APF and the Fund's Transition of Assets Plan for the coming transition process. All seem comprehensive and have been properly approved and effectively communicated.

Related risk management arrangements are robust, and relevant risks have been identified, assessed and recorded with the Fund's risk register, with mitigating actions clearly set out. There is a separate risk register specific to the Avon pension fund transition plan.

Governance and other arrangements relating to BPP transition are in place and have been agreed by all relevant parties (B&NES s151 Officer and Monitoring Officer and their equivalents at the 9 other funds). These include the required Shareholder Agreement, and the Services Agreement, which, following FCA approval of the BPP, has now been signed.

Senior managers and members have been kept properly informed throughout the process.

### **Audit & Risk Personnel:**

Lead Auditor: Vince Langdon

### **Acknowledgements:**

Sincere thanks to Liz Woodyard, Avon Pension Fund Investment Manager, for her help and assistance provided throughout the Audit review.

**Internal Audit Report – Brunel Transition**  
**ACTION PLAN**

LOW RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
L1	<p><b><u>Risk Mitigation</u></b></p> <p>A review of the Fund's risk register identified one risk deemed to be 'potentially off-target'. This relates to the Fund being unable to recruit appropriately skilled technical or investment staff given transfer of key offers to BPP and the short supply of such staff regionally in the market.</p> <p>Although a number of proposed actions have been recorded, including identifying additional training and professional qualification needs of remaining officers, buying in resource from advisors or BPP as appropriate, continuously risk assessing the current work programme to ensure only priority work will be undertaken in the short term, and exploring options for developing apprentice and graduate level staff; the risk has yet to be satisfactorily mitigated.</p>	As per the risk register, this could restrict the Fund's ability to develop and implement the service plan.	Management should consider approaching other Pension Funds within the BPP to establish whether there are additional steps that could be taken that have not yet been considered. This could include the opportunity for sharing resource in the short term.	<p>The Committee approved extra resource for the Investment Team in March 2018. Recruitment expected to be 3Q18.</p> <p>Discussions with other funds about sharing resources are ongoing but options limited as other funds in pool face similar issue regarding their level of investment resource.</p>

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## **Internal Audit Report**

**Confidential**

# **Avon Pension Fund Employee Contributions**

**June 2018**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	<b>The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary</b>
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

### Assurance Summary:

Assessment	Key Control Objectives
Excellent	Employee contribution information received from employers is effectively monitored to ensure completeness of submission.
Good	Appropriate assurances are obtained as to the completeness, validity and accuracy of information received, and effective action taken where assurances are insufficient.
Good	The provision of accurate information is written into formal agreements.
Good	The completeness and accuracy of system entries is effectively checked, with invalid entries being prevented.
Good	Potentially erroneous information is promptly investigated.
Good	The Pension Fund system is regularly and effectively reconciled to employee contribution information received from employers.
Good	Amounts received are effectively monitored to ensure completeness and accuracy of payment.
Weak	The Pension Fund system is regularly and effectively reconciled to the Pension Fund bank account.
Good	Robust quality monitoring processes are in place.

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Avon Pensions Fund Employee Contributions and assessed the framework of internal control to be at 'Level 4'. A total of 6 audit recommendations are detailed in the Action Plan.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

### Context & Audit Comment:

The current audit has been conducted as part of the 2017/18 Audit Plan, and has sought to confirm that the risks relating to employee contributions are effectively mitigated by reviewing and testing those mitigations and reporting on their suitability and effectiveness.

In order to arrive at our conclusions, we have met with officers primarily from the APF Data Quality and Finance Teams to gain an understanding of the systems at play and have reviewed supporting records and conducted sample testing of transactions and records.

With such a wide variety of employers (352 currently) within the fund, ensuring that they are kept informed and comply with contribution submission requirements is a task requiring a good degree of forward planning, co-ordination and communication, as well as robust systems for the day to day and year end processing tasks required to manage and record the contributions received.

Our overall view is that the suitability and effectiveness of measures used to mitigate employee contribution risk are well established and operating to a good standard, with evidence of good practice embedded within these measures.

A small number of further improvements are possible which in our opinion could further reduce risk exposure however this report does not include any matters considered to constitute a significant risk to the effective operation of the fund.

Furthermore those issues identified were in areas where further work to address is either already underway or being considered going forward.

Where low risk findings have been identified, these have been discussed verbally with the Pensions Manager and so are not reproduced below in the main findings table. These consisted of:

- Some control boxes within the I-Connect upload progress spreadsheet had not been populated, such as the date on which system reports had been run and by whom;
- The 2017 year end control spreadsheet did not always record that a response had been received from employers in respect of queries raised or that they had been chased.

## Internal Audit Report – APF Employee Contributions

### **Background**

The Avon Pension Fund has 29,293 active members as at February 2018. Employee (member) contributions are deducted at source and paid across to the Fund on a monthly basis by the 352 employers who are part of the Fund.

The payment of employee contributions by a specified date is a statutory requirement (source The Pension Regulator Code of Practice 14 paragraph 148) and is monitored closely by the APF Finance Team. The Team are currently operating with reduced capacity however based on the auditors work it was concluded that this was not having a significant impact on the day to day ability to manage employee contributions and recruitment activities are understood to be underway to fill the vacancy in the near future.

Ensuring that member records within Altair are accurate and up to date is the work of the Employer Services Data Control team, who are currently conducting their year-end exercise which involves obtaining a complete member dataset from all employers, matching this against currently held data and uploading and validating the new data into Altair. This process takes several months to complete and is fairly resource intensive.

### **Audit Summary Findings**

#### **We identified the following strengths:**

- LGPS50 forms used to notify APF of contribution payments are processed on a daily basis, and promptly matched to income received to the APF income suspense bank account.
- There are relatively few incidents of late payments and where these do occur they are promptly identified and action taken. Such incidents are also regularly reported to the Pension Board and Committee.
- Having observed three years of successive year end control spreadsheets, it is apparent that each year the record has been refined, improved and developed to ensure it meets the needs of the service.
- The staffing structure includes a team dedicated to Data Control, a key function of which is ensuring the accuracy and reliability of pension information on Altair, including employee contributions.
- Potential issues with data quality are regularly identified and actions taken by way of exception reporting and data matching.
- Separation of duties is used to ensure a degree of oversight in key processes, including reconciliations undertaken by the finance team.
- APF regularly communicates with employers to ensure they have the most up to date information, for instance regarding contribution rates to apply for the coming year.
- Complex or multi stage processes such as those for the year-end data update and I-Connect monitoring are summarised into a single record which allows management to easily monitor progress.

## **Internal Audit Report – APF Employee Contributions**

### **We identified the following weaknesses:**

- Employee contribution amounts posted to the Altair pensions system are not reconciled to actual amounts received from employers during the year and subsequently posted to the general ledger. Therefore potential variances in the value of contributions posted to Altair and the general ledger may not be identified.
- A signed Service Level Agreement is not in place for all employers. This is because the existing SLA template has been under review for an extended period. It was noted that the existing SLA states that meetings with the employer to review joint working arrangements will take place every six months as a minimum. In practice however these meetings are only held with the four larger employers as standard.
- Standard checks on data being uploaded via I-Connect do not include the identification of potentially incorrect contribution amounts.
- A review of a sample of active member records on Altair revealed that non-standard contribution rates were shown in two instances. We note the year end exercise currently underway includes checks and balances that should eliminate these anomalies in the coming months.
- Key reconciliation processes were not always as timely as they could be, sometimes taking two to three months to complete.
- Year-end assurances sought from employers as to the accuracy of contribution information provided are not worded in a particularly robust fashion.
- Although the process itself has been refined and developed, the year-end exercise to update member records for the majority of employers is inefficient and labour intensive in comparison to other options such as I-Connect. We note a project is already planned to tackle this issue so have not made a recommendation in this regard.

### **Audit & Risk Personnel:**

Lead Auditor: Gary Spratley

### **Acknowledgements:**

Sincere thanks to Geoff Cleak, Pensions Manager and members of the Pensions team for their help and assistance provided throughout the Audit review.

**Internal Audit Report – Employee Contributions**  
**ACTION PLAN**

<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M1</b>	<p><b><u>System Reconciliation</u></b></p> <p>There is no reconciliation carried out between member contributions recorded within Altair (the pension system) and actual contributions received into the bank account and subsequently posted to the general ledger.</p> <p>Management explained that reconciliation had been attempted and it proved difficult to carry out based on factors such as maternity pay, part time working and changes to pay occurring during the year.</p>	<p>There are robust controls in place to ensure the accuracy of much of the data entered onto the Altair system, however with no reconciliation to the actual contributions received into the bank, there's a risk that these amounts are incorrect as the checks in this area are weaker.</p> <p>Any under or overpayments could therefore go undetected.</p> <p>The fund may suffer financial loss.</p>	<p>A reconciliation between employee contributions posted to the Altair system and those posted to either the bank account or Agresso general ledger should be introduced going forward.</p>	<p>The reconciliation between the Altair system and bank account is an area that the Fund is looking to develop.</p> <p>A project to achieve monthly data returns across the whole employer base via Altair's IConnect system commenced in April 2018.</p> <p>The development and introduction of Altair's ERM (employer record management) system will facilitate the ability to reconcile between bank account/general ledger and Altair</p> <p>Employer Services Team/Finance &amp; Systems Manager Expected implementation date - by April 2019</p>

## Internal Audit Report – Employee Contributions

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M2	<p><b><u>Timeliness of Reconciliations</u></b></p> <p>Both the main bank reconciliation (to the general ledger), and also the separate reconciliation between the bank and the LGPS50 returns, are not generally completed by the end of the following month, but can take 2 to 3 months to finalise.</p>	<p>Delays in identifying variances may create a backlog of work and make the job of tracing the cause more onerous.</p>	<p>Wherever possible we would expect monthly reconciliations to be completed by the end of the following month.</p> <p>The first quarter can be an exception as we acknowledge there will be other priorities such as closedown of the accounts.</p>	<p>There were a small number of occasions when the main bank account reconciliation to general ledger was delayed in completion. Fund Administrators will aim to complete this earlier going forward.</p> <p>Reconciliation between the bank and LGPS50 returns are undertaken on receipt. Discrepancies identified are taken up with employers immediately. However, the final completion of this monitoring cannot be achieved until employers have resolved all their differences.</p> <p>Finance &amp; Systems Manager</p>

## Internal Audit Report – Employee Contributions

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M3	<p><b><u>Service Level Agreements</u></b></p> <p>The 'one size fits all' approach traditionally used for SLA's is no longer considered appropriate, given the variety and range in sizes of employers joining the scheme. To illustrate, the existing SLA requires (as a minimum) six monthly review meetings with each employer; however in practice these are not considered necessary for smaller employers. Even for larger employers such as Bristol, we did not always find evidence of such meetings occurring with the specified frequency, for example, there was no record of a meeting being held between March 2016 and June 2017.</p> <p>A revised SLA has been in development since 2015, with the summer newsletter of that year stating it would be issued soon. As the intention however is to issue the new SLA alongside a revised Admin Strategy and the Admin Strategy review is not yet complete, the updated SLAs have yet to be issued.</p>	<p>If existing agreements are seen as no longer fit for purpose, they may become unenforceable.</p> <p>For employers without any SLA at all, holding them to account for maladministration may become more difficult.</p> <p>The Fund may be subject to reputational damage if it is seen to be negligent in fulfilling its duties under the SLAs, such as the requirements for service review meetings.</p> <p>Inaccurate or incomplete information may be supplied whilst still complying with the SLA.</p>	<p>Up to date and relevant SLAs signed by both parties should be in place and their requirements maintained.</p> <p>New SLAs should include the requirement for employer organisations to have sufficiently adequate internal controls in place to ensure that information provided to the Pension Fund is complete and accurate.</p>	<p>The SLA is a statement of intent on the part of both parties and is not legally enforceable. The only real recourse for the Fund for regulatory breaches is to the regulator.</p> <p>The Fund cannot insist on internal controls within employers their own auditors should identify this risk.</p> <p>One size must fit all as the regulations are for all and do not differentiate between employers</p> <p>The Fund has regular scheduled performance review meetings with all Unitary Authorities. In response to the IA comment - there was a scheduled SLA meeting with BCC in September 2016 however the record of the meeting is unavailable</p> <p>It should be noted that APF also issue standard information (Admission Agreement) to all new</p>

## Internal Audit Report – Employee Contributions

<p>Page 109</p>	<p>Some newer employers such as Virgin are currently operating without an SLA in place, due to the delays in issuing the revised documents.</p> <p>In addition, although current SLAs require the provision of information to the Pension Fund within specific timescales, they do not require that employer organisations have sufficiently adequate internal controls in place to ensure that the information provided is complete and accurate.</p>			<p>employers, which includes details of their responsibilities for employee contributions.</p> <p>To comply with TPR Code of Practice 14 &amp; PSP (Record Keeping &amp; Misc. amendments) 2014, The Fund continually measures all employer data submitted to ensure compliance. Employers who fail to meet required levels of compliance are required to sign up to an improvement plan which is monitored.</p> <p>Pensions Manager/ Employer Services Manager</p>
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## Internal Audit Report – Employee Contributions

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M4	<p><b><u>Annual Declarations</u></b></p> <p>Currently, annual declarations are required from all employers, where the signatory certifies that the data submitted has been completed correctly, in accordance with the APF guidance.</p> <p>This provides little assurance that the employer signatory has considered what assurance they themselves have received, that the information being provided by them as an employing body is accurate, complete and valid.</p> <p>Nor does it provide APF with assurance that the employer has carried out relevant examination or testing of their payroll information to ensure that information provided and contributions paid are accurate.</p>	<p>Declarations may be signed without the employer signatory having proper regard to the assurance that the declaration should theoretically provide.</p> <p>This could result in inaccurate, incomplete or invalid contributions information and related payments being provided to APF, even though a signed declaration may have been received.</p>	<p>The Pensions Team should consider how the declaration wording can be enhanced to ensure that proper consideration by the employer signatory is given as to the assurance being provided.</p> <p>Consideration should also be given to obtaining assurances from the employer's internal auditors, where relevant, or alternatively the employer's payroll provider.</p> <p>This should also be written into the new SLAs, as mentioned above.</p>	<p>The Fund will undertake a review of the current employer declaration to ensure wording is enhanced to provide independent assurances to validity and accuracy of information submitted.</p> <p>The reality is that many employers will have sent the Fund inaccurate or incomplete data for which the Fund carries out an annual data cleanse. As part of the process APF will develop monitoring reports to address issues to the employers auditors</p> <p>Pensions Manager &amp; Employer Services Manager.</p> <p>Date: March 2019</p>

## Internal Audit Report – Employee Contributions

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
M5	<p><b><u>Contribution checks</u></b></p> <p>A number of reports are run to verify the data uploaded via I-Connect. We understand that although these reports cover potential anomalies including duplicates, omitted employees and contributions from members who are recorded as having opted out, there is no report run that identifies potentially inaccurate employee contributions.</p>	<p>Contribution data uploaded to Altair may be inaccurate.</p>	<p>Where I-Connect is not used, member records on Altair are updated as part of the year end exercise which involves recalculating the expected contribution amount based on the contribution rate and pensionable pay, and comparing it to the actual contribution deducted. This control provides significant assurance as to the accuracy of the data held on Altair. Management should consider devising a report to apply a similar check on data uploaded via I-Connect.</p>	<p>With all employers required to submit data monthly via iConnect, this is not an area that can be efficiently monitored on a manual basis</p> <p>The Fund will log this with the software provider as a potential development request to add validation to the contribution received field to ensure it matches the appropriate rate. This should also link in with M6 below.</p> <p>As only one Employer pays contributions based on actual pay in the month and all the rest average theirs the report is only necessary for one employer</p>

## Internal Audit Report – Employee Contributions

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>M6</b>	<p><b><u>Contribution Rate Errors</u></b></p> <p>From a sample of 20 'active' members whose records we checked on Altair, we noted two instances where a non-standard contribution rate of 5.9% and 6.49% were shown.</p>	<p>The integrity of system data may be called into question.</p>	<p>All active member records should display a standard contribution rate that is in line with their current salary.</p> <p>The two non-standard contribution rates should be investigated and any subsequent issues resolved where applicable.</p>	<p>The year-end process for 2017-18 now has additional checks that will help to prevent and or correct non-standard contribution rates from being uploaded to the system.</p> <p>Data Control Team Leader June 2018 see above</p>

Bath & North East Somerset Council		
MEETING:	Local Pension Board – Avon Pension Fund	
MEETING DATE:	19 <sup>th</sup> July 2018	AGENDA ITEM NUMBER
TITLE:	Pension Committee – Annual Report 2017/18	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Pension Committee Annual Report		

## **1 THE ISSUE**

The purpose of the report is to present the annual report of the Committee's activities for 2017/18.

The Pension Board annual report will be appended to the Pension Committee report to Council at its meeting on 13 September and further included for noting at the next committee meeting on 21 September.

## **2 RECOMMENDATION**

The Local Pension Board is asked to note the Committee's annual report.

## **3 FINANCIAL IMPLICATIONS**

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

## **4 THE REPORT**

4.1 The report outlines the work undertaken by the Committee during the twelve months to 31 March 2018 and sets out its agenda over the coming year.

4.2 The workload for the both the committee and officers was a particularly onerous in 2017/18 and resources were under significant pressure. The major projects were the strategic investment review, pooling of assets, implementing the risk management strategy, continued delivery of the IT Strategy, managing administration performance and delivering the data improvement plan.

## **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.

<b>Contact person</b>	<i>Geoff Cleak (01225 395277)</i>
<b>Background papers</b>	<i>Council Report – Establishment of Avon Pension Fund Board – 15<sup>th</sup> January 2015</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

# **AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2017 - March 2018)**

## **1 BACKGROUND TO THE AVON PENSION FUND**

The Avon Pension Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2014 (as amended) and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2016 (as amended). Bath & North East Somerset Council (“the Council”) administers the Fund on behalf of approximately 365 employing bodies including the four unitary authorities (as at 31 March 2018), of which c. 195 are academies. The Fund has approximately 110,000 members and the value of the Fund as at 31 March 2018 was £4.6 billion. In 2017/18 the Fund received £225m in pension contributions and paid out £171m in pension payments and transfers.

The Local Government Pension Scheme is going through a period of rapid and challenging change. The pressure on administrators has increased exponentially with the accelerated growth in scheme employers and membership. Benefit calculations have to be made separately to reflect different periods of service accrual and a further layer of complexity has been introduced with the advent of the career average revalued earnings structure requiring all member data to be captured accurately on an annual basis.

## **2 GOVERNANCE ARRANGEMENTS**

The scheme is heavily regulated and now overseen by the Pensions Regulator. Other bodies and agencies undertake key roles, particularly the LGPS Advisory Board, the Ministry for Housing Communities and Local Government, and CIPFA, which sets the accounting standards. Brunel Pension Partnership Ltd, the company established by the Brunel pool to implement the Fund’s investment strategy is regulated by the Financial Conduct Authority.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the “Committee”) which is the formal decision-making body for the Fund. The Committee’s role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. Due to the wide scope of the Committee’s remit it is supported by the Investment Panel (the “Panel”) which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions. The Terms of Reference, to be agreed by the Council, for the Committee and Panel are set out in Appendix A to this report.

The Pensions Committee and administering authority are scrutinised by the Local Pension Board ensuring that the governance surrounding the scheme remains robust and fit for purpose.

## Committee Membership

The Committee structure is as follows:

Voting members (12)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 2 independent trustees 1 elected member nominated from each of the other 3 West of England unitary councils 1 nominated from the Higher and Further education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

The Committee meets quarterly. In 2017-18 one extra committee meeting was held to approve changes to the Investment Strategy. Attendance at these meetings was 70% for the voting members and 40% for the non-voting members.

Ad hoc workshops are arranged as necessary reflecting the Committee's meeting agendas. During the last twelve months one workshop was held to review the Investment Strategy and evaluate the impact of the proposed changes identified by the Fund's Investment Consultant ahead of the extra committee meeting.

### Investment Panel

The Panel consists of up to six voting members from the Committee and meets at least quarterly ahead of Committee meetings.

The Panel met formally four times during the year, with attendance at 79%, and met with selected managers at dedicated workshops where managers presented on their performance and outlook for their portfolio. In addition they attended a workshop to review in detail the Risk Management Strategy which was implemented during 2017-18.

## 3 TRAINING

The Fund provides training to committee members to ensure they possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duties. The administering authority must ensure:

- that decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor 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.

The Fund has in place a training framework which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds, which identifies six areas of knowledge as follows:

- i. Legal and governance context
- ii. Pensions Auditing and Accounting Standards
- iii. Procurement and Relationship Management
- iv. Investment Performance and Risk Management
- v. Financial Markets and Product Knowledge

#### vi. Actuarial Methods, Standards and Practices

Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Much of the training is delivered through detailed Committee and Panel reports and workshops where the topic is explored greater in detail.

In addition, members attended a number of seminars and conferences which broaden their understanding of investments and topics of relevance to the LGPS.

### 4 REVIEW OF THE YEAR

#### a) Investments

- The Fund's assets increased by £251m to £4,608m at 31 March 2018. The Fund generated an investment return of 4.7% during the year, with a return of 6.3% p.a. over the last three years.
- The investment return was lower than in recent years as the rally in equity markets stalled around the year end. Bond markets were affected by the expectation that interest rates in the US and UK are on an upward trend. Property and infrastructure assets which account for 17% of the fund generated the strongest returns during the year. The appreciation of sterling meant that the impact of hedging the foreign currency exposure within the portfolio added to the overall return in 2017/18; excluding the foreign currency hedge the returns were 3.0% over one year.
- During the year the Fund reviewed its investment strategy to reflect the improved funding level, changes in the outlook for markets and to incorporate the outcome of the review of the Responsible Investing Policy in 2016. In addition the Risk Management Strategy, largely developed in 2016/17, to manage the volatility in the funding position was implemented.

#### b) Pooling of Assets

- Since 2015 when the government announced that the assets of the LGPS funds should be pooled to reduce costs and increase the capacity across the LGPS to invest in infrastructure, the Fund has been participating in the Brunel Pension Partnership, a collaboration of 10 LGPS funds.
- Significant progress has been made during 2017/18 with the final milestone, for the company set up by the pool, Brunel Pension Partnership Ltd (Brunel), to obtain FCA authority to operate, being achieved on time in March 2018. This means that from 1 April 2018 this company can provide services to the ten funds or clients in the pool. The 10 funds in the pool are shareholders, each owning 1/10<sup>th</sup> of the company.
- Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. Brunel is responsible for ensuring each fund can implement its own strategy via a suite of portfolios that it will offer all its clients. Brunel will create, structure and monitor the performance of each portfolio and report on back on each portfolio to its clients. This means that much of the operational risks will be managed by Brunel rather than the funds and across the pool there will be access to a larger, knowledgeable team of investment specialists.

- The next phase is to transition the current investment mandates from each of the ten funds to the portfolios offered by Brunel. This will start in 2018/19 but will take a number of years given the nature of some of the less liquid legacy assets.
- Eleven committee members attended the Stakeholder Engagement day arranged for Brunel Pension Partnership to update members on progress.
- The Committee receive an update report on Brunel Pension Partnership at each committee meeting. Governance arrangements are in place (at pool level) for monitoring service delivery, the transition of assets and the costs & savings from 1 April 2018.

#### **c) Funding Level**

- The funding level at 31 March 2018 is estimated to have risen marginally to 96% (from 95% a year earlier) and the deficit to have narrowed to c. £181m million from £230m a year earlier.
- The next valuation is due in 2019 when the contribution rates for the three years from 1 April 2020.

#### **d) Pensions administration**

##### **(i) Budget**

- During the year to 31 March 2018, total administration costs (excluding governance and investment management costs) were £2.4 million, a saving of £0.4m (14%) on the budget.
- Total costs including Investment Management, custody and governance costs, but excluding performance fees that are not yet due for payment, were £26.4 million, £1.6 million above budget. Investment management fees were higher than expected (£1.9m) due to the rise in asset values during the year. Governance and Compliance costs were also higher than expected (£0.09m) due to higher than anticipated expenditure on consultants in relation to the Strategic Review of Investments.
- The investment management and custody fees, excluding Performance Fees, of £19.5 million, equates to 0.42% of the Fund's assets.

##### **(ii) Chartered Institute of Public Finance & Accountancy (CIPFA) Benchmarking (Benefits Administration)**

- The Fund participates in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs.
- The latest available report for 2016/17 identifies the cost per member for the Fund as £17.55 compared with £15.79 in 2015/16. The increase reflects the approved additional staff resource required to mitigate the challenge of continued growth in Fund employers. However, costs remain significantly less than the cost for the average fund which is £20.14 per member. The Fund's

own performance targets are set out in the SLAs it has in place with employers. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with the larger employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits.

### **(iii) Pensions Administration Strategy**

- The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.
- The strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data. The table below reflects how the Fund's employer and membership base has changed over the last two years

	31/03/18	31/03/17	+ / -
Number of employers with 5000+ members	2	2	-
Number of employers with between 1000 and 4999 members	5	5	-
Number of employers with between 100 and 999 members	19	16	+3
Number of employers with between 11 and 99 members	209	147	+62
Number of employers with between 0 and 10 members	152	116	+36
Total	387	286	+101

- The Fund revised its Administration Strategy in 2015 to include a more detailed ICT Strategy and also to ensure the governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and employers. The Administration Strategy will be further reviewed in 2018 to ensure it remains focussed on the Funds key objectives and challenges ahead.

## **5 COMMITTEE ACTIVITIES TO MARCH 2018**

### **a) Brunel Pension Partnership**

The Committee received quarterly reports informing them of progress in project to pool our assets. In June the legal documentation to establish a company authorised by the FCA to manage the client assets was considered by the Committee ahead of the company formation in July 2017. In December the Committee reviewed the 2018/19 Business Plan and budget put forward by Brunel which was then presented at its AGM in January 2018 for the 10 shareholders to approve.

In March 2018 the Committee approved the mapping of each of the Fund's current mandates to the portfolios offered by Brunel. All the assets will transition to these portfolios; however, given that it is linked to the liabilities of the pension fund, the Risk Management Strategy will remain bespoke to the Avon Pension Fund and not 'pooled'.

## **b) Investment Strategy**

Following the review of the investment strategy the main changes were as follows:

- A reduction in the allocation to equities to lock in gains following strongly rising markets.
- A reduction in the allocation to corporate bonds which will generate capital losses as interest rates rise.
- Allocate to Multi Asset Credit which is less sensitive to rises in global interest rates than corporate bonds.
- Having identified the risk to assets values from climate change in its, review of its Responsible Investing Policy, switched equity assets managed on a passive basis (which mirror the broad market indices) into a passive managed Low Carbon Global Equity fund where the annual carbon emissions are reduced by 76% compared to the equivalent mainstream global index.
- Implemented an Equity Protection Strategy as despite the reduction in the allocation to equities they remain the largest risk to the fund; as a result a strategy has been implemented that will protect the fund if there are significant falls in equity markets.
- Medium term changes are an allocation to Secured Income such as commercial property with long term inflation linked rental income and an allocation to Renewable Energy Infrastructure. Once these are implemented the allocation to equities will be at 37.5% of total assets.

## **c) Investment Strategy Statement**

The LGPS regulations require funds to publish a revised Investment Strategy Statement (ISS) if there are significant changes. The Fund updated its ISS in December 2017 to reflect the changes in the investment strategy implemented during the year.

The ISS sets out the Fund's core beliefs that underpin the investment strategy, the process for ensuring the suitability of investments and the key risks the Fund is exposed to, and how these risks are managed.

## **d) Risk Management Strategy:**

The Fund invests in assets such as fixed interest bonds to provide some matching to the value of the liabilities, in order to reduce the volatility in the funding position. To improve the effectiveness of the "matching" assets" in 2016/17 the Committee agreed a liability risk management framework which should increase the certainty of the Fund's assets achieving the cash flows required to meet the pension payments as they fall due.

In 2017/18 this strategy was implemented through a bespoke investment fund created for the pension fund. The operational risk is managed by the investment manager who locks in the liability values ("hedged") at predetermined market levels. Fund officers advised by the Fund's investment advisor, Mercer, closely monitor the implementation of the strategy and report back to the Investment Panel quarterly. The Panel's focus is ensuring there are enough assets within the investment fund to support the hedged positions and to ensure the fund is locking into attractive market levels.

### **e) Responsible Investing Policy (RI)**

Two key recommendations from the 2016 RI review were agreed as part of the strategic review, namely an allocation to a passively managed Low Carbon Global Equity Fund and to Renewable Infrastructure.

In addition the Fund's carbon footprint was analysed for the first time. At 31 March 2017 the Fund's aggregate exposure within equities was more carbon efficient than its benchmark, outperforming by 20.5% due to both sector and individual stock allocations. This means that the investment managers were investing in less carbon intensive sectors and picking less carbon intensive stocks than the benchmark (note that this was before the switch into Low Carbon equities). In addition overall the Fund was 7.9% less environmentally intensive than its benchmark.

The Fund has continued to support the Local Authority Pension Fund Forum (LAPFF) as part of its Responsible Investing Policy, with members and officers attending quarterly meetings. LAPFF act on behalf of local authority funds to promote best practice in governance in investee companies either on its own or in collaboration with other organisations with similar objectives.

### **f) Funding Strategy**

The improved funding level was a key consideration in the review of the investment strategy. As this was the first year of the new valuation period there was no change to this strategy.

### **g) Approval of the 3-year Service Plan and Budget 2018/21**

The forward looking three year Service Plan 2018/21 sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan. The main focus of the plan is:

- To work with Brunel Client Group and Brunel to ensure efficient transition of assets and full consideration of investment, financial and governance issues. Ensure Committee and Board kept up to date of progress
- To complete implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.
- To undertake an interim valuation to provide indication for budgeting and to review funding strategy and implications for investment strategy.
- To undertake a review of the Administration strategy to include development of a new chargeable service offer.

The budget approved for Administration in 2018/19 is £2.94m.

The budget includes some re-categorisation of expenditure between Administration, Communication and Payroll Communication costs to better reflect their functions. Year on year savings approved in the 2015/16 budget were set aside to fund the IT Strategy. Following a change in the IT systems supplier's product offer this expenditure has previously been delayed. Part of the associated budget has now been transferred to fund the project to roll out the I-Connect solution across all small and medium sized employers. Wherever possible the effect of inflation has been absorbed.

#### **h) The Pension Regulator – Code of Practice 14**

- The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions.
- The Fund has undertaken a detailed review of its core data and processes and assessed its level of compliance with regulation requirements in respect of:
  - Scheme record keeping
  - Maintaining contributions
  - Providing information to members
- The regulations require 100% completeness of data across a number of core areas. On a quarterly basis the Fund undertakes a series of analytical tests against the total membership to measure the overall level of completeness of data accuracy. Measurements tested against 119,860 records as at 31<sup>st</sup> March 2018 demonstrated an overall data score of 94.48%. A data improvement plan has been developed to address the issues of non-compliance identified. Accordingly, the data improvement plan will be further reviewed and updated in 2018/19 following the Local Pension Boards next annual review of compliance.
- To ensure continued compliance the Fund has also undertaken to review its existing procedures relating to the monitoring of late payment of monthly contributions from employers and its Internal Dispute Resolution Procedure (IDRP).
- Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis.

#### **i) Treasury Management Policy and Cash Management Policy**

- The Committee approves the Fund's Treasury Management Policy annually. The policy sets out how the Fund's cash is invested to meet its day-to-day requirements. The cash managed under this policy is 0.5-1% of the Fund's value (£20-45m).
- The management of this cash is delegated to the Council's Treasury Management Team. However, the Fund's cash is invested separately (via separate bank account) to the Council's and the Fund has a bespoke Treasury Management Policy.

#### **j) Administration**

- The growth of employers within the APF continues to represent a significant challenge to the Fund despite increases in resource over the past few years.
- Significant numbers of schools are transferring to academy status which, together with outsourcing and continuing public sector cuts, continues to create spikes in workload. This is expected to continue until 2020.

## **k) Work plans**

- Separate workplans are prepared for the Committee and Panel detailing the forthcoming areas of work relating to the investment and funding strategies and to the administration of benefits to give the Committee and officers the opportunity to review the workload and accommodate issues that may arise.

## **6 FUTURE ACTIVITY**

The Committee and Panel's focus over the next twelve months will be as follows:

### **a) Investments**

- Pooling of assets – monitor the transition of assets. Brunel will manage this process and will have a detailed project plan that it will discuss with the Client Group (officer representatives from the 10 funds). Avon Pension Fund will monitor this via a high level project plan and risk register reflecting to Avon's investment strategy. The transition of assets will begin in 2018/19 but will take at least 2 years to complete.
- The work required managing the current mandates and the transition is significant and the increase in the workload required of officers is considerable.

### **b) Funding Strategy**

- Undertake an interim valuation as at 31 March 2018 to understand the issues and cost pressure ahead of the 2019 valuation.
- Covenant assessment of scheme employers in preparation of the 2019 valuation.

### **c) Benefits Administration**

- Continue to ensure maintained compliance with stringent requirements of The Pensions Regulator (TPR).
- To review the Administration Strategy to ensure the requirements of the TPR are properly addressed, including the option to develop a new chargeable service.
- To complete the roll out of I-Connect digital solution across the whole employer portfolio to achieve 99% electronic pension data receipt.
- To undertake a review of data processes to ensure the requirements of GDPR are met.
- To undertake clearance of outstanding processing backlog to enable 'business as usual' to deliver performance in line with competitive SLA targets and statutory legal deadlines.
- Review the AVC Strategy on the number and types of funds to be offered to members to assist them in saving towards retirement.

### **d) Governance of the LGPS**

- Work closely with the Oversight Board of Brunel Pension Partnership to monitor the transfer assets to the company.

- Understand the significance and impact of the pooling proposals on the Avon Pension Fund own internal governance arrangements and put forward recommendations to Council as required.
- Engage with and respond to government consultations or consultations from the LGPS Scheme Advisory Board. It is expected that the focus will be the administration of academies across the LGPS.

**Avon Pension Fund**  
**June 2018**

**Terms of Reference for the Avon Pension Fund Committee and Investment  
Panel**

**To be attached after approval by Committee**

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Bath & North East Somerset Council		
MEETING:	Local Pension Board – Avon Pension Fund	
MEETING DATE:	19 <sup>th</sup> July 2018	AGENDA ITEM NUMBER
TITLE:	Pension Board – Annual Report 2017/18	
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 draft annual report of the Board's activities for 2017/18, as required under its Terms of Reference for approval.

## **2 RECOMMENDATION**

- 2.1 The Local Pension Board is asked to approve the annual report subject to any comments at its meeting.

## **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 – August 2017 – July 2018 - and briefly look forward to the proposed work plan for the forthcoming year.
- 4.3 An outline structure and draft is attached at Appendix 1 for comment and approval by the Board.
- 4.4 The Annual Report will 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.

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

## **Avon Pension Fund – Local Pension Board – Annual Report 2017/18**

### **1. Introduction**

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

The Board was established in 2015 arising from the Public Sector Pension Act 2013 and Local Government Pension Scheme (Governance) Regulations 2015.

The purpose of the Board is to assist the Administering Authority (BANES Council) of the Avon Pension Fund (APF) secure compliance with the LGPS regulations and requirements of the Pensions Regulator (TPR) and ensure efficient and effective governance and administration of the fund.

This report covers the period 1<sup>st</sup> August 2017 to 31st July 2018 within which the Board has held four formal meetings. During this period the members of the LPB have continued to develop their knowledge and understanding of the LGPS and TPR requirements as required by law.

The third year of operation of the LPB was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management and benchmarking.

It has also actively monitored the fund's involvement in the Brunel Pensions Partnership (BPP) that was established in 2017 to facilitate the pooling of the funds assets with 9 other LGPS funds in 2018.

I am pleased to say that with the support of the officers to the APF; the LPB has made good progress in fulfilling its terms of reference and continuing to support the administering authority in its statutory duties.

The LPB has reviewed a wide range of LGPS regulations and TPR requirements and made a number of recommendations to the administering authority (see page 8 and Appendix 1).

This has included starting a process of review of all administration processes against their legal timeframes, reviewing high level of risks facing the APF on a regular basis, analysing key issues around data quality – notably missing addresses - and reviewing the refreshed statutory Investment Strategy Statement (ISS) for its compliance against the DCLG statutory guidance.

In addition we have received the outcome of our annual compliance check from Internal Audit in relation to the funds compliance with TPR Code of Practice 14 along with a number of other audit reviews of the fund and its administration. The LPB welcomed the actions being implemented by the fund to ensure it fully complies with the Code and improve the control framework around the Administration of the APF.

The LPB noted the growing administration pressures from more employers joining the fund as well as new TPR requirements in respect of record keeping and data quality. In light of this the LPB supported the need to future proof the level and quality of administration services to fund members in the forthcoming review of the fund's administration strategy.

The LPB also continues to overview the APF communication strategy and stressed the need for all scheme information to be kept up to date and the importance of the fund website to employers and members.

Looking ahead the LPB will seek to assist and support the APF in respect of minimising potential governance and other risks arising from BPP and the pooling of the funds assets with nine other LGPS funds in 2018.

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

## **2. Legal basis of Local Pension Board**

### **Background**

At the request of central government Lord Hutton conducted a review into public service pensions in 2010 and published his findings in March 2011 which recommended significant change to the governance of the pensions *‘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 (LGPS Administering Authority).

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. The LPB must have equal representation of scheme members and scheme employers.

The APF LPB is a separate legal entity from the APF Pensions Committee (Section 101 committee) to which as administering authority (BANES Council) has delegated its functions in relation to the administration of the LGPS.

### **Specific Role and Purpose**

The Public Sector Pension Act 2013 sets out the requirements for the establishment of a LPB with the responsibility for assisting the LGPS local scheme manager (BANES) in relation to the following:

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 role of the LPB can be likened to that of a “critical friend” but is not a decision making body. It has an important advisory role for the APF and works with the Pensions Committee to scrutinise its decision making processes and to ensure the Fund’s compliance with all its legislative requirements.

### **The Pension Regulator (TPR)**

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore one focus for the LPB is ensuring the fund’s compliance with TPR Codes 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 APF Pensions Committee to address these requirements.

### **Terms of Reference**

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

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

## Avon Pension Fund – Local Pension Board – Annual Report 2017/18

### 3. Establishment of Local Pension Board

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

Adverts for the role of Chair 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 (former Head of Pension Fund Management, Environment Agency) – 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 complement of employer and employee members are now in post.

#### Details of the Local Pension Board Members

##### **Independent Chairman:**

Howard Pearce. Appointed 1<sup>st</sup> July 2015. 4 year term of office to 30 June 2019.

##### **Employer Member Representatives:**

Gaynor Fisher, active member. Appointed 1<sup>st</sup> July 2015. 4 year term of office to 30 June 2019.

Steve Harman, active member. Appointed 1<sup>st</sup> July 2015. 4 year term of office to 30 June 2019.

Tony Whitlock, active member. Appointed 1<sup>st</sup> May 2016. 4 year term of office to 30 April 2020.

##### **Scheme Member Representative:**

David Yorath, retired member. Appointed 1<sup>st</sup> July 2015. 4 year term of office to 30 June 2019.

Tom Renhard, deferred member. Appointed 1<sup>st</sup> July 2015. 4 year term of office to 30 June 2019.

Mark King, active member. Appointed 1<sup>st</sup> May 2016. 4 year term of office to 30 April 2020.

In total the Board has well over 100 years experience of the LGPS. Details of each Board members experience, LPB training log, and register of interests for are available through the following link.

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

#### Attendance at Local Pension Board Meetings – August 2017 – July 2018

Role	Board Member	Attendance
Independent Chairman	Howard Pearce	4/4
Employer Representative	Gaynor Fisher	3/4
	Steve Harman	3/4
	Tony Whitlock	3/4
Member Representative	David Yorath	3/4
	Tom Renhard	3/4
	Mark King	2/4

#### **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**

During the year on-going technical training was provided to LPB members by officers from or advisors to the APF on a full range of topics covering the LGPS framework and TPR requirements.

All 7 members of the LPB have completed the TPR public sector pension toolkit certification. In addition three members attended the LGE LGPS Fundamentals Course.

The LPB training plan is a topic at each board meeting and all Board Members maintain a training log, which is also submitted annually to assist in the identification of on-going training needs.

Details of the LPB training plan and members training logs 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 have signed up to an LPB Code of Conduct in which emphasises 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 have also signed up to the LPB Conflicts of Interest Policy. This requires all members to notify BANES Democratic Services team 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 at the 4 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 15<sup>th</sup> January 2015.

The LPB agrees a budget on an annual basis to enable the Board to perform its duties and a summary of the costs is included below –

### **Summary Financial Table**

<b>Budget Area</b>	<b>Actual Costs 2016-17</b>	<b>Budget 2017/18</b>	<b>Actual Costs 2017-18</b>
LPB Members Allowances	£7,067.27	£8,000.00	£7,129.00
LPB Members Training Costs	£1,500.00	£3,000.00	£260.00
LPB Meeting & Democratic Services Costs	£3,245.00	£9,000.00	£5,352.00
Central Recharges & Officer Costs	£11,800.00	£15,000.00	£12,600.00
Communication Costs	£0.00	£2,000.00	£22.00
<b>Total</b>	<b>£23,612.27</b>	<b>£37,000.00</b>	<b>£25,363.00</b>

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.

**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, the APF carried out a self-assessment of the LPB’s current arrangements against TPR Code of Practice No. 14 in 2016/17. The full results of this exercise were reported initially in May 2016 and revisited in November 2016 and are available via the following link.

<https://democracy.bathnes.gov.uk/documents/s44211/LocalPensionBoardTPRCOP14UpdateNov2016.pdf>

Subsequent to this Internal Audit carry out an annual review of compliance against the Code and their latest report is available via the following link –

<https://democracy.bathnes.gov.uk/documents/s49951/LocalPensionBoardAuditUpdateFeb2018App2.pdf>

In summary the opinion was positive with a ‘Good’ opinion on compliance and the internal control framework and the review identified only a small number of issues identified for the APF to achieve best practice, including –

- Issues regarding the transparency of declarations of interest for the Investment Panel were noted, in particular the failure to consistently publish declarations on ‘modern gov’. These are being addressed and do not impact directly on compliance with the Code so no formal recommendation has been made.
- Supporting records such as risk registers and the breaches control sheet had not always been completed accurately or fully. However the errors / omissions were not significant in nature.
- The way in which ‘acknowledgements’ in respect of formal disputes are handled is not always in line with procedures although no significant issues were identified.
- Communications with members had not always been in strict compliance with the requirements of the Code but again these were not significant.

The Board support independent review and the work of Internal Audit and their reports and findings were reported to the Board in February and July 2018 along with their other reviews of the Pension Fund and overall Plan –

<https://democracy.bathnes.gov.uk/documents/s49949/LocalPensionBoardAuditUpdateFeb2018.pdf>

**8. Pension Fund Communications**

Effective member and employer communications form a core part of the role of the APF. During the year the Board was represented at the Employers conference and also reviewed at a high level the APF’s communications strategy and website.

The Board continue to work with APF officers on assessing all methods of communication both with Members and Employers, especially where issues have been identified and greater engagement or training is required.

Reviewing the strategy and approach to 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 APF follow the framework laid down by the LGPS administering authority (BANES Council). The APF Risk Register identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the mitigating action taken to manage down each risk.

The Register is reviewed regularly and the key risks fall into one of the following categories –

- (i) Failures in the 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 LGPS nationally and increasing political pressure to reform the scheme structure, governance frameworks and to centrally direct investment decisions

The LPB's ongoing review of the risk register concurred with the Pensions Committee that the top risks facing the fund revolve around –

- BPP Governance, asset pooling and benefit realisation
- Significant growth of new employers, especially Academies
- Delivering the future funding strategy
- Recruitment and Retention
- Data Quality
- Compliance with Legal Timeframes
- Information Governance (GDPR)

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 has actively engaged on the key risks facing the APF and its administration and supports increases in resources to mitigate some of these risks as well as discussing issues around capacity, skills gaps and recruitment and retention created primarily as a result of indirect implications from BPP.

The LP will continue to ensure that a review of the funds risk register will remain a regular agenda item at each meeting.

## Avon Pension Fund – Local Pension Board – Annual Report 2017/18

### 10. Summary Review of Areas Covered in 2017/18 & Recommendations Made

The third year of operation of the LPB was focussed on key governance themes of legal compliance, risk management, and best practice as well as monitoring the significant developments connected to asset pooling and creation of the Brunel Pensions Partnership. A summary of the areas covered and recommended is detailed as follows (**Full Details at Appendix 1**) –

<b>Review of LPB Arrangements</b>
Review of LPB Terms of Reference, Code of Conduct, Conflicts of Interest, Breaches
Review of Training Requirements
Review of Work Plan
<b>Review of Pension Fund Activities</b>
Review of Avon Pension Fund Committee & Investment Panel Minutes
Review of Project Brunel, Brunel Oversight Board
Review of Investment Strategy Statement
Review of Governance Framework
Review of Scheme Employers & Admitted Bodies
<b>Review of Pension Fund Administration</b>
Review of Compliance Reports at all meetings
Review of Risk Register at all meetings
Review of Service Plan annually
Review of GDPR Implementation
Review of Legal Timeframes & Missing Addresses
Review of Annual Report
<b>Independent Assurance</b>
Review of TPR, SAB & CIPFA external benchmarking exercises
Review of External Audit plan and reports
Review of Internal Audit plan and reports

## Avon Pension Fund – Local Pension Board – Annual Report 2017/18

### 11. Draft Forward Plan for 2018-19

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

AGENDA ITEM	19/07/18	08/11/18	07/03/19	13/06/19	12/09/19
<b>Board Governance</b>					
Terms of Reference review		X			
Code of Conduct/ Conflicts of Interest policy				X	
Work Plan (to be dynamically updated)	X	X	X	X	X
Annual budget setting and monitoring			X		
Training Plan (to be updated as required)	X	X	X	X	X
Annual Report to PC and Council approval	X			X	
<b>Scheme and Fund Governance</b>					
Legal, policy, regulatory developments	X	X	X	X	X
Training – APF financial delegations (Council, PC, IP, BOB, and APF officers)		X			
Minutes PC, IP, BOB	X	X	X	X	X
Annual Service Plan			X		
Training – APF internal & external SLA's financial controls			X		
External advisor appointments review process/controls				X	
Risk Register review	X	X	X	X	X
TPR Code 14 Compliance updates			X		
Governance (& FRC) Compliance statement	X			X	
Internal Audit plan/reports on APF	X		X		X
External Audit Governance Report and Accounts		X		X	
Benchmarking against other BPP funds			X		X
<b>Funding/Investments</b>					
Statutory Funding Strategy Statement consultation/process/report			X		
2019 Triennial valuation process/controls/report					X
Statutory GAD S13 triennial funding report	X				
Statutory ISS annual update and associated RI policy			X		
BPP update (delivery/savings)	X	X	X	X	X
<b>Benefits Admin/Comms</b>					
Admin Strategy Statement review and employer charging policy		X			
Fund and employers compliance/TPR reporting	X	X	X	X	X
Employer admission agreement policies					X
Breaches policy/register/TPR reporting					X
GDPR compliance	X				
Record keeping, data security, business recovery			X		
ABS process annual review		X			X
GMP reconciliation (one off exercise)		X			
Discretions policies review					X
Admin performance benchmarking			X		
Comms policy statement and website review				X	
Complaints policy, IDRs, PO cases review					X

## Avon Pension Fund – Local Pension Board – Annual Report 2017/18

### Appendix 1 – Local Pension Board – Actions & Decisions

	Area	Action/Minutes
<b>7th November 2017</b>	<b>APF Committee Minutes</b> <b>APF Investment Panel Minutes</b> <b>LGPS Updates &amp; Developments</b> <b>BPP Update</b> <b>Compliance Report</b> <b>Benefit Statement Update</b> <b>Risk Management Update</b> <b>Training &amp; Work Plans</b>	<a href="https://democracy.bathnes.gov.uk/documents/g5020/Printed%20minutes%2007th-Nov-2017%2014.00%20Pension%20Board.pdf?T=1">https://democracy.bathnes.gov.uk/documents/g5020/Printed%20minutes%2007th-Nov-2017%2014.00%20Pension%20Board.pdf?T=1</a>
<b>15<sup>th</sup> February 2018</b>	<b>APF Committee Minutes</b> <b>APF Investment Panel Minutes</b> <b>LGPS Updates &amp; Developments</b> <b>BPP Update</b> <b>Compliance Report</b> <b>Pension Administration Legal Timescales</b> <b>Pension Administration Member Addresses</b> <b>Internal Audit Update</b> <b>Risk Management Update</b> <b>Training &amp; Work Plans</b>	<a href="https://democracy.bathnes.gov.uk/documents/g5021/Printed%20minutes%2015th-Feb-2018%2014.00%20Pension%20Board.pdf?T=1">https://democracy.bathnes.gov.uk/documents/g5021/Printed%20minutes%2015th-Feb-2018%2014.00%20Pension%20Board.pdf?T=1</a>
<b>24<sup>th</sup> May 2018</b>	<b>APF Committee Minutes</b> <b>APF Investment Panel Minutes</b> <b>Brunel Oversight Board Minutes</b> <b>LGPS Updates &amp; Developments</b> <b>BPP Update</b> <b>APF Service Plan</b> <b>Legal Timeframes Update</b> <b>Compliance Report</b> <b>Risk Management Update</b> <b>Training &amp; Work Plans</b>	<a href="https://democracy.bathnes.gov.uk/documents/g5022/Printed%20minutes%2024th-May-2018%2014.00%20Pension%20Board.pdf?T=1">https://democracy.bathnes.gov.uk/documents/g5022/Printed%20minutes%2024th-May-2018%2014.00%20Pension%20Board.pdf?T=1</a>

## Avon Pension Fund – Local Pension Board – Annual Report 2017/18

<b>19<sup>th</sup> July 2018</b>	<b>APF Committee Minutes APF Investment Panel Minutes Brunel Oversight Board Minutes LGPS Updates &amp; Developments BPP Update Member Addresses Update APF Governance Framework APF Annual Report Scheme Employers &amp; Admitted Bodies Update GDPR Implementation Update Internal Audit Update Risk Management Update LPB Annual Report Training &amp; Work Plans</b>	To be added post meeting
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Bath & North East Somerset Council		
MEETING:	LOCAL PENSION BOARD - AVON PENSION FUND	
MEETING DATE:	19 <sup>th</sup> July 2018	AGENDA ITEM NUMBER
TITLE:	Pension Board – Training and Work Plan 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.

## 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.

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 Chair of the Board.

<b>Contact person</b>	Jeff Wring, Head of Audit West, 01225 477323
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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

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## Appendix 2 – LPB Work Plan

AGENDA ITEM	19/07/18	08/11/18	07/03/19	13/06/19	12/09/19
<b>Board Governance</b>					
Terms of Reference review		X			
Code of Conduct/ Conflicts of Interest policy				X	
Work Plan (to be dynamically updated)	X	X	X	X	X
Annual budget setting and monitoring			X		
Training Plan (to be updated as required)	X	X	X	X	X
Annual Report to PC and Council approval	X			X	
<b>Scheme and Fund Governance</b>					
Legal, policy, regulatory developments	X	X	X	X	X
Training – APF financial delegations (Council, PC, IP, BOB, and APF officers)		X			
Minutes PC, IP, BOB	X	X	X	X	X
Annual Service Plan			X		
Training – APF internal & external SLA's financial controls			X		
External advisor appointments review process/controls				X	
Risk Register review	X	X	X	X	X
TPR Code 14 Compliance updates			X		
Governance (& FRC) Compliance statement	X			X	
Internal Audit plan/reports on APF	X		X		X
External Audit Governance Report and Accounts		X		X	
Benchmarking against other BPP funds			X		X
<b>Funding/Investments</b>					
Statutory Funding Strategy Statement consultation/process/report			X		
2019 Triennial valuation process/controls/report					X
Statutory GAD S13 triennial funding report	X				
Statutory ISS annual update and associated RI policy			X		
BPP update (delivery/savings)	X	X	X	X	X
<b>Benefits Admin/Comms</b>					
Admin Strategy Statement review and employer charging policy		X			
Fund and employers compliance/TPR reporting	X	X	X	X	X
Employer admission agreement policies					X
Breaches policy/register/TPR reporting					X
GDPR compliance	X				
Record keeping, data security, business recovery			X		
ABS process annual review		X			X
GMP reconciliation (one off exercise)		X			
Discretions policies review					X
Admin performance benchmarking			X		
Comms policy statement and website review				X	
Complaints policy, IDPRs, PO cases review					X

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