BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 28th November, 2019

Present:- Nick Weaver (Chair), Steve Harman (Employer Representative), Mark King (Member Representative), David Yorath (Member Representative) and Tony Whitlock (Employer Representative)

Also in attendance: Jeff Wring (Service Director - One West), Tony Bartlett (Head of Business, Finance and Pensions), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

21 APPOINTMENT OF CHAIR

The Service Director – One West informed Members that Nick Weaver been selected as the preferred candidate as Chairman of the Board following a competitive recruitment process. The previous Chairman, Howard Pearce, had not wished to be considered for a second term. Advertisements to invite applications for the two vacancies for Board Members would be placed shortly.

The Board was invited to approve the appointment of Nick Weaver as Chairman for a four-year period.

RESOLVED to approve the appointment of Nick Weaver as independent Chairman of the Avon Local Pension Board.

Nick Weaver joined the meeting and took the chair for the remainder of the meeting.

22 APOLOGIES FOR ABSENCE

There were none.

23 DECLARATIONS OF INTEREST

There were none.

24 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

25 ITEMS FROM THE PUBLIC

There were none.

26 ITEMS FROM MEMBERS

There were none.

27 CHAIRMAN'S OVERVIEW AND INTRODUCTION

The Chair said that he would like to complete today's agenda relatively quickly, to that Members would have time to discuss the Board's future workplan and activities. His aim was to ensure that the Board was adding value to the work of the Avon Pension Fund. He would always welcome advice and suggestions from Members about how the Board operated.

28 MINUTES OF PREVIOUS MEETING: 13 JUNE 2019

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

A Member asked whether copies of Brunel's Climate Position Statement (second paragraph, item 10, agenda page 8) would be provided to Members. The Investment Manager said she believed it was available on the Brunel website; she would forward it to Members if they wished. The Brunel statement would be fed into the Pension Fund Committee's Strategic Investment Review; there would be a Committee workshop shortly, and a special meeting to agree the new policy would take place in February 2020. The Service Director – One West assured the Board that it would be kept updated about the progress of the Review.

29 AVON PENSION FUND INVESTMENT PANEL MINUTES 2 SEPTEMBER 2019

RESOLVED to note the Minutes of the meeting of the Avon Pension Fund Committee Investment Panel of 2 September 2019.

In response to questions from a Member the Investment Manager confirmed that the Strategic Review workshop referred to in the September minutes had taken place on 7 November. A further meeting of the Panel took place on 20th November, at which it been agreed that a further static Equity Protection Strategy (EPS) should be put in place for 12-18 months. The Investment Strategy Review would not be completed until February 2020, but decisions had to be taken on the EPS before then, as the current strategy would shortly begin to roll off.

30 AVON PENSION FUND COMMITTEE MINUTES 27TH SEPTEMBER 2019

RESOLVED to note the Minutes of the meeting of the Avon Pension Fund Committee of 27th September 2019.

31 FUNDING STRATEGY STATEMENT

The Investment Manager presented the report.

At the invitation of the Chair the Investment Manager commented on the issues raised by the Board in its response to the Funding Strategy Statement (FSS) consultation as detailed in section 4.10 of the report.

(a) <u>Solvency</u>

The Board had suggested that it might be prudent for the Fund to target greater than 100% solvency to smooth out the risk arising from market fluctuations. The actuary advised that that the Fund did not need to do that, as there was enough freedom in its discount rates and assumptions not to require higher solvency ratios, except in the case of some smaller employers who might be exiting the Fund.

(b) Deficit recovery

The Board had suggested that a reduction in the debt recovery period from 16 to 13 years could impact on employer contributions and trigger a negative reaction from the Fund's key stakeholders. However, the deficit recovery period could be tailored to employers' specific needs. As part of the valuation process every employer's results were reviewed. In general, the aim was to reduce the deficit recovery period for employers to at least 12 years. With some employers, such as Academies, it was more difficult, because they were facing very large increases in future service rates because of the McCloud decision and because of their employee profile and a reduction in the discount rate.

(c) Future regulatory changes

All known potential regulatory changes had been included in the FSS. The policy on McCloud had been made more specific, and all employers had been notified of their estimated McCloud-related additional costs. Because It is not known when the changes arising from the McCloud decision will be applied and because they will be backdated, employers will be asked to pay these costs from 1st April 2020.

(d) Climate change

The Board had recommended that the FSS should refer to climate change. However, it was felt that climate change was more appropriately addressed in the Investment Strategy Statement. The level of prudence included in the asset outperformance assumption is a contingency for all investment risk including climate change. There is a great deal of discussion in the actuarial profession about the impact of climate change on demographics and insurance, but nothing really meaningful has emerged at this stage. A Member noted that climate change was now frequently referred to in Pension Committee documents and was to be discussed at a Pensions Committee workshop in December, so it was a subject that naturally attracted the attention of the Board, which wanted to understand how it impacted on the Fund and the work of the Pensions Committee. The Head of Business, Finance and Pensions suggested that this had to be seen in perspective. The main task of the Pension Fund Committee was to ensure that sufficient returns were made on investments to pay pensions. Therefore, the Investment Strategy had to address risk, including climate risk. The Pensions Committee was currently reviewing its investment strategy and the workshop was part of that review. The draft of the new Investment Strategy would be considered by the Pensions Committee in March 2020. The Fund's officers had done a great deal of work on assessing climate change risk, though this work had not been widely publicised. There is in certain quarters a hope and an expectation that the Fund will do something dramatic in relation to climate change in its Investment Strategy, but what it can do is always subject to its primary duty of being able to pay pensions.

(e) Efficacy

The Board had recommended that the FSS should include policy statements on how the financial savings from APF asset pooling into BPP would affect future employers' contributions from 2019 onwards. The Investments Manager said that this was not felt to be appropriate. The FSS was about the wider picture of costs, the expected rate of return, the deficit and the level of contributions. Savings would be taken into account at the next valuation. It was expected that higher returns would be achieved through pooling, which would have a direct impact on the funding position.

The Chair asked whether there had been any recent cases of employers being unable to pay their contributions. The Investments Manager replied that this had not happened recently, though it had in the past. When an employer was felt to be particularly vulnerable, they were helped to leave the Fund so that their liabilities and costs could be capped. Employers usually became vulnerable because they had had a big fall in the number of employees while still having significant liabilities to the Fund. The Fund tries to move some employers facing difficulties onto the lower risk strategy, to try to reduce their investment risk and match their cash flow with their liabilities, but this is not easy at a time when bond yields are so low. The Chair asked whether the monitoring of at-risk employers is reported to the Pensions Committee. The Investment Manager replied that this was done annually. A report will be made in March 2020 after the completion of the valuation. There were a lot of meetings with individual employers taking place at present. Covenant assessment was an ongoing process, and there was a particular focus on further and higher education bodies, because they are not guaranteed, and on any community admission bodies that are not guaranteed.

The Chair noted that there are about four actuarial firms that dominate the LGPS market. One of those firms seems to offer to deliver the result that the client wants. The Government Actuary's Departments has an exercise to standardise the results of valuations. He used to work for a fund that was ranked 50 out of 89 in the GAD table on the ground that it had been too ambitious in its assumptions. He asked whether the GAD table was shared with the Avon Pensions Committee. The Investment Manager said that it was, and that Avon was generally ranked somewhere in the middle of the table. In her view GAD's assumptions were not relevant to any fund's investment strategy, and that their approach was purely a mechanism for standardisation. It does not help a fund to decide what to do, but just shows a fund's level of prudence. The Chair said it might be considered a reasonably good measure of prudence.

RESOLVED to note the process undertaken to finalise the Funding Strategy Statement.

32 REGULATORY UPDATE

The Pensions Manager presented the report.

Members discussed the impact of regulatory changes on the efficiency and effectiveness of the Fund.

The Chair recalled that in 2006 the Government had introduced ‘pension tax simplification’. However, in the intervening years laws and regulations impacting on the LGPS had become more and more complicated. In the FT the previous Saturday a Government minister had been quoted as saying that the health pension scheme should not worry about breaking the tax laws. The Chair’s concern was that over the past few years the LGPS had been subjected to unceasing change. How could the Board understand the impact of these changes on the service that the scheme’s administrators were able to provide to members and, while forming its own opinion on how well the Fund was performing, work constructively with it? The Pensions Manager said he believed that the Fund’s officers should demonstrate that robust processes were in place to respond to regulatory changes, that workloads were being regularly reviewed and that there was appropriate prioritisation.

The Head of Business, Finance and Pensions said that the Chair’s question was a difficult one. The Fund was resourced for a ‘normal’ level of activity, but the legal and regulatory environment was constantly changing. He felt that the LGPS was being used as a means by which the Government pursues objectives that go beyond just the payment of pensions. He felt the most constructive thing that could be done through the work of the Board would be to try through engagement to ensure change happened in a more sensible way, and to try to get HMRC, the Scheme Advisory Board and other bodies to understand the impact of their directives etc on the LGPS. Part of the problem is that local government pensions practitioners are poorly represented on all the national bodies which dictate to the funds what they have to do, and that the Local Government Association (LGA), which might be expected to be the champions of local authority funds, is very under-resourced. The Chair commented that at a conference he had attended pensions managers had said that a subscription to the LGA of a couple of thousand pounds a year was excellent value for money in terms of the support received, and that they would be prepared to pay double the subscription to provide LGA with double the resources.

The Chair said that it was important for the Board to understand how the regulatory challenges were being managed by the Fund. The Head of Business, Finance and Pensions replied that the Fund tried to address them in its Annual Service Plan and Budget in March each year. There was, of course, always the possibility of a totally unforeseen issue arising during the year. The McCloud decision is a case in point: the legislative process is unlikely to resolve the issue for the next couple of years, but it is known that the impact will be as great as the mis-selling scandals of the 1990s. The Fund has to start addressing this now. So the next Service Plan will include provision for a specialist team to deal with McCloud, which will work on case identification and obtaining required information from employers where this was lacking. The Pensions Manager added that all retirement cases back to 2014 would have to be inspected, and potentially it might be necessary go back further than 2014, if there were appeals. A Member commented that this could put pressure on employers, who might find it difficult to put extra resources into pensions administration. There was also the possibility that the employer owing backdated payments did not exist anymore. The Head of Business, Finance and Pensions pointed out that in addition some members may have passed away adding further complexity. Another Member suggested that in a fair world the additional costs imposed by McCloud would not fall on the LGPS. The Chair agreed, and said that it now seemed that LGPS administrators were expected to be tax experts as well, when big accountancy firms struggle with the interpretation of rules relating to lifetime allowances, annual allowances and protections.

A Member suggested that a summary sheet listing ongoing issues, such as McCloud, with actions taken, state of play, expected date of resolution and outcomes, would assist the Board in understanding how the Fund was responding to them. The Chair agreed, and noted that one of the first workshops proposed for the Board was on administration and delivery. He suggested this could include the Fund’s response to regulatory challenges. The Board needed to understand how the Fund responded, how it developed and monitored plans to address the challenges, how it prevented important issues being overlooked and how it managed any unexpected challenges that arose.

After the discussion was concluded the Board **RESOLVED** to note:

1. the current position regarding the developments that could affect the administration of the Fund;

2. the responses sent to the MHCLG consultation on the ‘Local Valuation Cycle and the Management of Employer Risk’ and the HM Treasury consultation on ‘Restricting Exit Payments in the Public Sector’.

33 COMPLIANCE REPORT

The Pensions Manager presented the report.

The Chair referred to the report on the data breach (Annex 1) and suggested that this should be reviewed in the Board’s digital strategy workshop with a view to learning how similar breaches might be prevented in future as digitization is rolled out. This might be achieved by reducing the amount of paper communications mailed to members and increasing online access. The Head of Business, Finance and Pensions said the digitization strategy emphasized self-service for employers and employees. This required a digital system with robust inbuilt controls, which the Fund’s system did not have at present, though such systems were available in the marketplace. The digitization strategy would focus on specifying such a system and identifying a suitable supplier, which might not be the current supplier. He pointed out that the Pensions Regulator regulates funds, while there is no regulation for employers, so a security failure by an employer is the responsibility of the Fund. That needs to be addressed in the regulatory framework. The Pensions Regulator should introduce standards for employers, payroll providers and data control.

The Chair noted that the Fund had fined 15 employers for late submission of data, and asked how they could be helped to avoid this in the future. The Pensions Manager replied that late payers were at first offered training. If they were late submitting data two years in a row they were required to sign a document committing themselves to improve their performance and attend training. The penalty charges are set out in the Pensions Administration Strategy. The Chair asked whether information about how the escalation process was being applied was shared with the Committee and the Board. The Pensions Manager said that it would be included in a report to the next meeting of the Board and the affected employers would be named.

The Service Director – One West asked whether the data breach had been escalated within North Somerset Council. The Pensions Manager informed the Board that he had a conversation about it with the head of HR in North Somerset and with their payroll provider.

A Member said that he was aware that schools often did not take pensions into account when selecting their payroll provider. The Pensions Manager said that all employers in the Fund had been notified of their obligations in relation to data provision; consideration was being given to sending them regular reminders about it. The Head of Business, Finance and Pensions said that when Bath and North East Somerset ceased to provide payroll services to schools, it had sent them a document setting out all the issues they should take account of when procuring new payroll services and what conditions they should include in payroll contracts. However, he thought the failure of the Regulator to issue standards for employers was the most fundamental problem. He said that the Fund had no legal power to expel poorly performing employers. The most it could do was to report them to the Regulator, but the Regulator had little power over them because they were usually not breaching any regulation. A Member said that Bristol City Council took the decision not to offer payroll services to schools, so that the 100+ schools in Bristol have very many different payroll providers. In reply to a question from a Member the Pensions Manager confirmed that officers of the Fund had regular meetings with the finance officers of employers.

After the discussion the Board **RESOLVED** to note

1. membership data, Fund and Employer performance for the 3 months to 30th September 2019;

2. progress and reviews of the TPR Data Improvement Plan.

34 RISK UPDATE

The Pensions Manager and the Governance and Risk Advisor presented the report.

The Chair asked whether, in the light of the earlier discussion, McCloud should be registered as a separate risk. The Governance and Risk Advisor confirmed that it had been entered separately on the main risk register.

A Member asked whether there was any prospect of the top risk (ability to recruit appropriately skilled staff) being reduced. Officers replied that there was not. The Head of Business, Finance and Pensions said that recruitment and retention remained difficult; this was a problem throughout the LGPS. The Service Director – One West asked whether Brunel was fully staffed, as Brunel had intensified the level of risk by attracting staff from the Fund. The Head of Business, Finance and Pensions said that Brunel was now fully staffed and had taken on staff on temporary contracts in order to complete the transition process. It had taken investment staff from the Fund, but not administrative staff. It took 2-2½ years to fully train a pensions administrator, and it could be difficult to retain people because the salary the Council was able to pay was uncompetitive. There were currently two posts for Head of LGPS funds being advertised as well as Investment Manager and Investment Officer posts at other funds The Fund had put in some protections to improve, staff retention and a fundamental review of the grading structure was due to take place. The Service Director – One West asked whether any consideration was being given to sharing services with other authorities. He understood that Devon and Somerset co-operated on pensions administration. The Head of Business, Finance and Pensions said that was a special arrangement; no further co-operation arrangements were being explored at present and it was unlikely that they would be while pooling was absorbing so much management time. At the end of transition in 20/21 or 21/22 and pooling is a success, thought might be given to pooling arrangements for administration, particularly since the SAB wanted to increase the independence of the funds from local authorities.

After discussion the Board **RESOLVED** to note the report.

35 TRAINING AND WORKPLAN UPDATE

The Chair asked for Members' views on the note he had circulated the previous day.

One Member said he found the formal meetings useful, because he was able to ask questions about the contents of reports. He suggested that an hour at a meeting could be dedicated to a particular topic. He also thought it would be worthwhile to revisit the relationship between the Board and the Committee. It would be also worthwhile to consider what other Local Pension Boards were doing.

The Service – Director said that although he had put four formal meetings in next year's workplan, that could be changed. He noted that all but one of the items on today's agenda were recurring standard items. Should these items be reported at Committee or shared with Members in some other way?

A Member said that it was sometimes difficult to follow the minutes of meetings at which he had not been present, but he thought it was part of the role of Board Members to see them.

The Head of Business, Finance and Pensions suggested that the work of the Board centred on testing the compliance of Fund with various requirements and judging whether that was improving.

A Member said that he felt there was sometimes information overload, and that it was not always easy to see the wood for the trees. He suggested that the Board should, with the help of officers, review the information that it needed and the areas it should focus on.

The Chair said that the quality of the service provided to members of the Fund, which was the prime concern, depended on many different factors. The Board needed to understand these factors and, where they were under the control of the Fund, judge if the Fund was performing efficiently and cost-effectively. He asked whether formal meetings should be preceded by workshops, from say 10.30-12.00. A Member recalled that previous workshops had only been 15 or 20 minutes long. The Service Director – One West asked Members whether for the February meeting the agenda should be pared back to allow the formal meeting to be completed in an hour so that it could be preceded by a two-hour workshop on the administration strategy? Members indicated that they would find this useful.

The Chair asked how the valuation and other emerging issues would be factored into the Board's workplan. The Head of Business, Finance and Pensions said that they would go into the Pension Committee's workplan and as a product of that it can be decided when they should come to the Board. Online access to information, currently being rolled out to the Committee, could be made selectively available to Board Members.

A Member suggested that governance and the Administration Strategy should be the topics for early workshops. The Head of Business, Finance and Pensions proposed that there should also be an early workshop on Brunel, as being the biggest single change in the administration of the Fund. The Member suggested that Brunel could be looked as part of governance and the Administration Strategy, rather than be treated as an entirely separate topic. The Chair, however, suggested that Brunel impacted most on investment, whereas the Administration Strategy impacted most directly on Fund members. As far as governance was concerned, the Hymans Robertson report had only been published a couple of weeks ago and the LGPS managers' conference had taken place a couple of days later. He thought these to be digested, before governance was looked in detail. He suggested that an introduction on governance, however, would enable the Board to clarify its role.

The Service Director – One West said that he understood that the Board wished to proceed as follows:

1. that the formal agendas should be pared back;
2. greater provision of the right tools and information online;
3. workshops on priorities specified by the Board.

Members agreed with this. The Service Director – One West said he would email draft dates for workshops to Members.

Officers confirmed that recruitment for the two vacancies on the Board was ongoing.

After the discussion the Board **RESOLVED** to note the report.

The Head of Business, Finance and Pensions gave an update of the appointment of the new CEO of Brunel and progress on the review of governance arrangements Members agreed that when Brunel was created it was natural that the governance arrangements were designed to give the individual funds assurance that their interests could not be overridden, but now that Brunel is operational it is important to ensure that Brunel is able to operate efficiently within the arrangements.

The meeting ended at 2.59 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services