

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 5th December, 2024

Present:- Nick Weaver (Chair), Ball, Harman, Wyatt and Evans

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Geoff Cleak (Pensions Manager), Anna Capp (Pensions Payroll Manager), Claire Newbery (Pensions Operations Manager), Carolyn Morgan (Governance and Risk Advisor) and Nicky Russell (Technical & Compliance Advisor)

25 EMERGENCY EVACUATION PROCEDURE

The Chair welcomed everyone to the meeting and asked the Democratic Services Officer to read out the Emergency Evacuation Procedure.

26 APOLOGIES FOR ABSENCE

The Democratic Services Officer informed the Board that apologies had been received from Stuart Anstead (Employer Representative).

27 DECLARATIONS OF INTEREST

Alison Wyatt declared an other interest and stated that she was now also a representative of the Pension Board in Somerset.

28 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

29 ITEMS FROM THE PUBLIC

There were none.

30 ITEMS FROM MEMBERS

There were none.

31 MINUTES OF PREVIOUS MEETING: 4TH SEPTEMBER 2024

The Board approved the minutes of the previous meeting and they were duly signed by the Chair.

32 INVESTMENT UPDATE

The Group Manager for Funding, Investment & Risk addressed the Board and highlighted the following issues to them.

She informed them that a preferred manager had been identified to carry out the SME (Small & medium sized enterprises) strand of the Local Impact portfolio and that the due diligence process was ongoing.

She explained that the government is consulting the LGPS on further changes to how our investment assets are managed. She said that the proposals embed pooling and extends the role of the FCA regulated pool company in managing our assets.

She stated that the proposed changes are highly material and broadly cover three areas:

- Reforming LGPS asset pools
- b) Boosting LGPS investment in their localities and regions of the UK
- c) Strengthening governance of both LGPS and pools

We do not agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool as it has not been made clear the benefit to the pool company or the AA of transferring illiquid, closed ended funds being wound down to expiry.

We do not agree that the pool should provide investment advice on the investment strategies of its partner AAs as conflicts of interest may arise if pools provide strategic advice and implement the strategy. Therefore, LGPS funds should not be required to take strategic advice from the pool company. Whilst AAs may wish to obtain strategic advice from the pool company, they must be able to access independent high-level strategic advice.

She explained that the Avon Pension Fund Committee will still set the Investment Strategy.

She said that the deadline for responses from the Fund was 16th January 2025 and from the Pools by 1st March 2025. She added that, at this stage, any changes were anticipated to commence from 1st April 2026.

Jon Evans asked who decides on which pools will pool together.

The Group Manager for Funding, Investment & Risk replied that in 2016 Avon voluntarily decided to become a pool with 7 other authorities within the South West that had already been working collaboratively together since 2003.

She added that work on the Investment Strategy would begin early in 2025 and that it would need to be established how the approach to ESG would work under these new proposals.

Jon Evans commented that the estimated funding level of the Fund was 102% and asked if other funds within the pool were of a similar level.

The Group Manager for Funding, Investment & Risk replied that all have different Actuaries that provide a value of their liabilities. She added that these assumptions are reviewed and adjusted as markets change. She said that the Fund's current level enables stable contributions to be made by employers.

Steve Harman asked if any overall governance changes were planned as part of the consultation.

The Group Manager for Funding, Investment & Risk replied that there were not really any at this stage.

The Chair commented that he had read reports from other Pension Board's relating to the issue of Brunel's investment performance.

The Group Manager for Funding, Investment & Risk said that this was in relation to their Equity Portfolios and them being underweight to the 'Magnificent 7' large technology companies. She added that conversations have been held with Brunel as to whether now would be the right time to make any changes.

The Chair thanked the Group Manager for Funding, Investment & Risk for her update on behalf of the Board.

33 INTERNAL AUDIT UPDATE

The Head of Audit & Assurance introduced the report to the Board and highlighted the following points from it.

Pensions Payroll Audit

Internal Audit has undertaken a review of the risks and controls related to the Avon Pension Fund - Pensions Payroll and assessed the framework of internal control at Level 4 - Substantial Assurance. A total of 4 audit recommendations are detailed in the Action Plan.

Pension Increases Audit

The Pension Increases (PI) audit was assigned a "Reasonable" Assurance rating.

Overall, there are adequate internal controls within the annual pension increase process to ensure that increases are being paid accurately and timely to pensioners. In terms of the historical issue of pensioners not receiving pension increases, Internal Audit acknowledge that the Quality Assurance team are still progressing 400+ cases and it is expected that all cases should be resolved by the end of December 2024.

Two high risk weaknesses were identified where improvements should be made to current PI controls. Management commitment and support was positive and they agreed to implement all recommendations by April 2025.

APF Scheme of Delegation Audit

The APF Scheme of Delegation audit was assigned a "Reasonable" Assurance rating.

A total of seven medium risk and three low risk recommendations were made for this piece of work. Management engagement was positive and they agreed to implement all recommendations by December 2024.

APF Year-End Process Audit

The APF Year-End Processes was assigned a “Reasonable” Assurance rating and a total of thirteen medium risk and four low risk recommendations were reported.

Staff and management were supportive of the audit findings and that six medium and three low risk recommendations were actioned during the fieldwork, with the remaining eight due for implementation by March 2025.

He added that the planning process will shortly commence for audits in 2025/26 and the Board are asked for their comments on areas for potential inclusion in the 2025/26 Internal Audit Plan.

The Chair commented that he felt that the payroll team had done a phenomenal job and praised their work and the result of the audit.

The Pensions Payroll Manager said that they have taken the comments received during the audit on board and began implementation. She added that there was still work to do within Q1.

Steve Harman asked if there was any update on the 400 Pension Increase cases to be resolved by the end of December 2024.

The Technical & Compliance Advisor replied that this figure had now been reduced to 95 and that these cases had GMP (Guaranteed Minimum Pension) issues.

The Pensions Operations Manager commented that the whole team across the section have done a great job.

Helen Ball asked what the interface was between the process mapping exercise and Internal Audit and whether they matched each other.

The Pensions Operations Manager replied that both were carried out as independent processes. She said that Audit would have been analysing from a deep risk element and that whilst officers were concerned with risk they were working on controls to mitigate risk.

The Head of Pensions said that the audits for 2025 / 26 would be agreed before the end of March 2025.

Helen Ball queried whether there should be a further Pension Increase Audit.

The Head of Audit & Assurance replied that follow up work would take place regarding this audit, but did not consider a full audit to be necessary.

The Head of Pensions said that they would intend to share the 2025 / 26 Audit Plan with the Board at their March meeting.

The Board **RESOLVED** to note the report and the outcomes of the Internal Audit and External Audit work carried out on behalf of the Avon Pension Fund.

34 PENSION FUND ADMINISTRATION - PERFORMANCE REPORT

The Pensions Operations Manager introduced the report to the Board and highlighted the following points from it.

McCloud

- The first phase of the remedy project for pensioners has begun, and cases will be reviewed on a case-by-case basis.
- 2 further sub-projects have been established a) to write to all members that we believe are not in scope for remedy but may be if they have qualifying service elsewhere, b) data rectification for c5000 due to bulk tranche update errors.
- The deadline for McCloud remedy is August 2025.

Pensions Increase

- The Fund have made the decision based on the number of records left to be reviewed, that the Pension Increase project is now concluded.
- The majority of members have now been remediated or have been excluded as not needing to be increased.
- The remaining member records to be actioned will form part of the administrations team's business as usual:
 - 24 Death cases – awaiting responses from the spouse or next of kin to make payment of arrears to the Estate.
 - 6 Dependant cases – awaiting responses from the dependant to make payment of arrears.
 - 96 GMP cases – High level analysis shows that these may not be an underpayment. All these records will require more investigation and manual calculations to determine whether there is an under or overpayment. The plan is to project manage these cases across the administration team and complete in 2025.

KPIs – SLA monthly performance average July 2023 to October 2024

- Performance has improved for the majority of KPIs across this period.

Steve Harman said that he would like to express his thanks to the whole team of officers within the service for making such a dramatic improvement to the performance figures.

KPI cases completed Oct 2024 to 17th Nov 24

- The KPI target for all case types was achieved during this period.

KPI's outstanding over 31 days – Oct 2023 to 17th Nov 2024

- This figure has decreased from 2,545 in October 2023 to 99 in November 2024

Service performance – Plan v's Actual – 17th Nov 24

- We have currently achieved 90% of our plan which is ahead of our target of 65%.

Priorities for 2025

- Complete procurement for main Pensions Administration System (PAS) including Pensions Dashboard
- Implement Hosting of PAS
- Implement Pensions Dashboard
- McCloud remedy
- GMP project reconciliation

The Head of Pensions said that he echoed the comments from Steve Harman and praised the work of the team. He added that staff retention and recruitment have been really important over the past year, alongside the implementation of the pay review.

He said that he shared the cautious tone from the Pensions Operations Manager as it was likely that some resources will be diverted in 2025.

Jon Evans asked if there was a separate projects office.

The Head of Pensions replied that the Business Change Team has already been established within the service and provides additional support.

The Pensions Operations Manager gave a brief summary regarding APF GMP Reconciliation.

- In April 1978, the Government introduced a new state pension system. It provided for a flat rate state pension, which was available for everyone regardless of his or her employment history, plus an additional amount based on a person's national insurance contributions. This additional pension element was called the state earnings related pension scheme (SERPS).
- Pensions schemes, including the LGPS, were able to opt-out of SERPS. This was known as 'contracting out'. However, to do this a scheme had to guarantee to pay a benefit to a member that was equal to or better than that which they would have built up if they had been a member of SERPS. This amount is called a guaranteed minimum pension (GMP).
- The Government removed the ability to build up an entitlement to GMP on 6th April 1997. Therefore, only those who were members between 6th April 1978 and 5th April 1997 will have a GMP.

- The end of contracting-out in April 2016 meant that HMRC no longer had to track a person's GMP entitlement. Therefore, HMRC decided to embark on a reconciliation project with all schemes. Their intention was to issue closure schedules containing contracted-out and GMP entitlements to each scheme and for schemes to carry out a reconciliation exercise, comparing data provided by HMRC against their own records.
- A summary of the reconciliation is as follows:

| Category | Membership Numbers at October 2023 |
|--|---|
| A. Members where the record held by HMRC agrees with the Fund record. | 32,858 |
| B. Members where the record held by HMRC disagrees with the Fund record | 6,468 |
| C. Members with Fund record but no corresponding HMRC record. | 1,026 |
| D. Members with HMRC record but with no corresponding Fund record | 5,271 |
| E. Members now cleared from the exercise | 45,746 |
| Total | 91,369 |

- Stalemate cases (figures in red above) represent those cases where it has not been possible to agree the GMP data held by HMRC with administration records. While in some cases it may be possible and reasonable to treat these as a 'life event' query in the future (if any suitable evidence exists), in practice it is expected that for the majority of cases a decision to either accept either HMRC or the administration record position as correct is required.
- Where SPA (State Pension Age) has been met and HMRC GMP at GMP payment date exceeds the £2 p/w tolerance; 816 potential cases have been identified as overpayments whilst similarly, a potential 277 underpayment cases have been identified.
- Recommendations have been drafted for the Board to approve and then to seek a decision from the Pensions Committee on 13th December 2024.

Steve Harman commented that he felt that the recommendations proposed were fair.

Helen Ball asked if the individuals concerned were to be informed.

The Pensions Operations Manager replied that they would, that these cases would require a manual review and it was estimated that the work would take 18 months to complete.

The Chair said that he was happy with the recommendations. He asked if other Funds were taking the same approach and was it legally compliant.

The Senior Associate replied that the Police and Fire Service in England & Wales have made the same decision and that no action has been taken on their response. He also assured the Chair that any data changes would comply with future statutory pension increases and meet any associated reporting requirements.

The Board **RESOLVED** to:

- i) Note the service performance for the period ending 17th November 2024.
- ii) Approve the following recommendations to be put forward to the Pensions Committee in respect of GMP.

- **For Category B cases**

- (a) Where member has not yet attained SPA, the HMRC GMP should be applied as part of BAU. No further rectification will be required.
- (b) HM Treasury tolerance of +/- £2p/w is accepted, and no further action is required.
- (c) Where an underpayment is confirmed, the member will have their pension increased to the correct level with arrears and interest calculated.
- (d) Where an overpayment is confirmed: -
 - (i) to agree that where an increased pension is being made that the pension is frozen at that level and no further increases applied until the correct level is attained.
 - (ii) Agree historic overpayments will not be recovered, in line with APF policy and as applied by other public sector bodies.

- **For Category C cases**

- (e) Recommend that the Fund record is accepted as accurate.

- **For Category D cases**

- (f) Recommend that the fund records are deemed to be correct.

- Further individual interrogation and analysis against Category B (under and overpayment) cases identified will be required to establish final and absolute totals.

- Updates on progress against cases identified will continue to be brought to the Pension Board and Pension Committee for review in future reports.

35 LEGISLATION UPDATE

The Technical & Compliance Advisor introduced the report to the Board. She said that on this occasion there were no significant changes to bring to their attention, but did wish to make them aware of the following points.

Pension Taxation

- On 30 October 2024, the Chancellor delivered the Autumn Budget, the first under the new Labour Government. The focus was a package of tax increases amounting to more than £40 billion (including increases to Employer National Insurance and Capital Gains Tax). The biggest pension-related change to emerge is in relation to Inheritance Tax. With effect from April 2027 payments from registered pension schemes following the death of a member where the recipient is not the spouse, or civil partner will now be within scope. A technical consultation is now underway.

FE College Guarantee

- In November 2024, the Government announced that the Department for Education (DfE) would provide a crown guarantee to Further Education providers in England and Wales operating in the statutory sector. Higher Education providers are not covered.
- The guarantee will operate in a similar manner to that provided for Academies. It will not apply to mergers or pooled colleges (where one constituent closes). The guarantee is unlimited with the DfE being able to make payments up to £32 million per annum (across the LGPS) before approval needs to be sought from the Treasury.

The Board **RESOLVED** to note the current position regarding the developments that could affect the administration of the fund.

36 PENSIONS ADMINISTRATION BENCHMARKING REPORT

The Governance & Risk Advisor introduced the report and highlighted the following areas to the Board.

- The Fund took part in the CIPFA Benchmarking exercise for approximately 15 years. However, over the years the number of Funds taking part in the exercise had declined and therefore the Fund has decided to make use of the SF3 data which all Funds are required to submit to MHCLG.
- Avon PF has more members than the average LGPS – but it is not a mega LGPS fund.
 - Avon: 125,867 members
 - Manchester: 428,804 members
 - Average: 78,000 members
- Admin costs per member are related to scheme size – Avon costs of £32 are on the ‘cost line’ and less than the LGPS average of £39.
- Avon is ‘cost average’ as the bulk of cost drivers are broadly near the middle of the LGPS range.

Alison Wyatt asked if there was a reason behind these figures.

The Governance & Risk Advisor replied that this was due to the increase in Academies and was also dependant on differing working models of the respective Funds.

Jon Evans asked how likely this situation was to change and could it lead to a reduction in costs.

The Governance & Risk Advisor replied that it has stabilised and the pace of new employers has slowed. She added that around two years ago there were 450, now it was 474.

- Avon's investment costs are lower than the LGPS average – probably driven by higher passive equity weightings.

The Head of Pensions said that in his view there were three drivers in respect of these costs:

- Level of passive investment
- Proportion of assets pooled
- Extent of local / small scale investment

The Chair said that in a future report he would like to see how much is spent on oversight and governance by the Funds.

The Board **RESOLVED** to note the report.

37 BREACHES REPORT

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas from it.

- No incidents were reported to the ICO (Information Commissioner's Office) during the period of October 2023 to October 2024. There has been a significant drop in data breaches this year. The total has fallen from 20 in 2022/23 to 7 this year.
- Employer Late Payers – 25 incidents of late or non-payment of contributions. 4 employers have been late for more than 2 consecutive months. Support / training for employers is being provided.
- The Breaches Policy has been updated to reflect the introduction of TPR's (Pensions Regulator) General Code of Practice (GCOP). Further amendments may be made to the policy to reflect the revised wording and requirements of the GCOP.

The Board **RESOLVED** to:

- i) Note the summary of the breaches log.
- ii) Note the changes to the Breaches Policy.

38 RISK MANAGEMENT UPDATE - RISK REGISTER

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas from it.

- The quarterly review of the risk register has taken place and the changes are as follows:
- NR04 – Governance of the Fund - wording has been reverted to reflect the wider governance risks rather than just the recent focus on internal controls. Based on recent audits and the review of controls no systemic failures have been identified and therefore the risk has been amended from high impact and likely to medium impact and possible.
- The top three risks are now:
- NR06 – the likelihood of a cyber-attack remains a high risk due to the recent high-profile attacks in the public domain. The Fund is in the process of carrying out a review of its business continuity plan. The fund is planning to move its admin system to a Heywood hosted solution and appropriate data protection and cyber assessments are being carried out.
- NR01 – Poor service levels below agreed standards. The current factors impacting this risk are set out in item 03 – Pension Fund Administration report. The risks associated with the implementation of the controls review are now reflected in this risk.
- NR05 – Failure to manage personal data per regulations. The volume of personal data the Fund manages in day-to-day processing keeps this risk high on the register. Within the Operations Teams process changes are planned including removing duplication of checking and bulk processing. Whilst these are welcome changes we note that additional data protection assessments will be required.

Helen Ball said that all Board members and members of the Fund should keep up to date with their knowledge and skills in relation to the awareness of cyber-attacks.

The Governance & Risk Advisor replied that they do provide all regulatory guidance to Fund members and that staff take part in annual e-learning training. She added that they could consider holding a workshop for the Board if it was felt necessary.

The Chair commented whether this could also be considered a communications issue by stating to members that representatives of the Fund would never call or ask for specific account or bank details.

The Head of Pensions said that this topic would be considered as a future agenda item for the Board.

The Board **RESOLVED** to note the report.

39 GOVERNANCE UPDATE

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas from it.

- The Administration Strategy & Service Plan update has been deferred to the February meeting.
- Training – Board members are asked to keep up with the training programme through the Hyman’s LGPS Online Learning Academy (LOLA).
- Board Recruitment – The Board remains 1 Member representative down and the process for recruiting will begin again in January.

Helen Ball asked for the 2025 meeting dates for the Board to be circulated.

The Board **RESOLVED** to note the workplan & training plan for 2024 / 2025.

The meeting ended at 12.30 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services