

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 8th December, 2017, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Patrick Anketell-Jones and Shaun Stephenson-McGall

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

Co-opted Non-voting Members: Richard Orton (Trade Unions)

Advisors: Steve Turner (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical Manager)

44 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

45 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby, Cllr Lisa O'Brien, Cllr Toby Savage and Wendy Weston.

46 DECLARATIONS OF INTEREST

There were none.

47 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

49 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

50 MINUTES: 23RD JUNE AND 22 SEPTEMBER 2017

The public and exempt minutes of the meetings of 23rd June and 22nd September were approved as a correct record and signed by the Chair.

51 UPDATE ON POOLING

The Investment Manager and the Head of Business, Finance and Pensions updated the Committee. A copy of the Fund's dashboard of risks relating to the Brunel Pension Partnership was circulated to Members.

Members noted the indicative budget for 2018/19 set out in Exempt Appendix 1. The indicative budget forms part of the Brunel Business Plan for 2018/19, which was considered at the meeting of the Oversight Board on 24 November and will be voted on at the Shareholders AGM at the end of January 2018. Brunel charges will comprise an equal amount for each partner fund plus an amount based on each fund's assets under management. The development costs for BPP were currently within budget. There would be a conference call by Section 151 Officers the following week to discuss the 2018/19 Business Plan and associated budget. The budget needed to incorporate a degree of flexibility during the transition period over the next two years, but there would be a strong focus on getting value for money. The Client Group will agree the portfolio specifications with Brunel in January to ensure the investment strategy of each fund can be implemented. Following that, the Oversight Board will consider the portfolio specifications at their January meeting.

A Member asked for clarification about whether costs might be higher than planned for in 2018/19. The Head of Business, Finance and Pensions replied that the Committee had already agreed additional resources in June to support transition beyond the resources proposed in the business case approved by Council in February. This was a one-off sum. It was not expected that there would be an increase in operating costs to support Brunel on a day-to-day basis in 2018/19. In the longer term there would be savings in managers' and custodian fees.

The Chair said that he had attended a meeting at the office of Brunel in Victoria Street in Bristol the previous week. The Oversight Board had settled into formal working without any problems or disquiet.

RESOLVED:

1. To note the progress made on the pooling of assets.
2. To note the contingency for extra resource to support the transition to the new custodian.
3. To note the proposed budget for 2018/19 for the services provided by Brunel and the Fund's indicative share of the costs.

52 INVESTMENT STRATEGY STATEMENT

The Investment Manager presented the report and invited the Committee to approve the revised Investment Strategy Statement (ISS) given in Appendix 1.

The changes proposed to the current ISS related to changes made to the Investment Strategy in the 2017 Strategic Review. Members noted the summary of changes given in paragraph 5.1 of the report. A copy of the comments made by the Pension Board on the draft ISS had been circulated to Members. The Investments Manager summarised the comments before discussing with Members.

A Member said that he thought that the comments of the Pension Board were helpful. He suggested that that it would be useful to have a regular report from the Pension Board on the agenda. The Head of Business, Finance and Pensions explained that the Pensions Board meets four times a year between meetings of the Committee. The Committee and the Board received the same reports on administration, legislation and pooling, for example. He did not think a report to the Committee from the Board would add value. The minutes of the Pension Board would be circulated with Committee papers, if Members would find that helpful. Another Member suggested that if the Board had a specific concern, it could notify the Committee and could be directed to look at specific issues, although there was concern over effort being duplicated needlessly. The Chair said that he thought that the Pension Board had now fully settled into its role of monitoring the Fund and trying to secure improvements in its compliance and performance. He looked forward to constructive co-operation with it.

A Member requested that all policy statements should be approved by the committee before the Board are consulted. This way the Committee would be able to consider both on their own merits.

A Member requested that more detail on the equity protection strategy is included in the next version. The Investments Manager confirmed this would be the case, as the strategy is now implemented.

RESOLVED:

1. To approve the revised Investment Strategy Statement.
2. To note that in line with regulations the draft Investment Strategy Statement has been circulated to the Pension Board for comments.

53 REPORT ON INVESTMENT PANEL ACTIVITY

The Investment Manager presented the report. Members noted the public minutes of the Panel meeting of the 13th November 2017 and the summary of Panel decisions recorded in section 4 of the report. The Investment Manager drew attention to the fact that the Panel had delegated the management of the collateral policy to officers.

Before considering the Exempt Minutes of the Panel the Committee, 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 discussion of the Exempt Minutes of the Panel meeting of 13th November

2017 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 commented on the Exempt Minutes of the Panel and responded to questions and comments from Members.

The Committee returned to open session and **RESOLVED:**

1. To note the decisions as summarised in paragraph 4.2, 4.3 and 4.4.
2. To note the minutes of the Investment Panel meeting on 13 November 2017 at Appendix 1 and Exempt Appendix 2.

54 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER

The Investment Manager presented the report. Members noted that the implementation of the equity protection strategy had been completed. There had also been a switch from passive equities into a low carbon global index. The RAG status of one manager had changed from amber to red.

Mr Turner commented on the Mercer investment report. He said that the key investment strategy changes had been implemented. The really positive news was that the Fund was £400m ahead of its expected position in the deficit recovery plan. If equity markets dropped 25% between now and the March 2019 valuation date the Fund would be in line with its expected position in the recovery plan. But with the equity protection plan now fully implemented, equity markets could fall and the deficit recovery plan would still be on track. There were many factors that might impact on equity markets, such as Brexit and a potential credit bubble, which made it highly advisable to have protection in place. In response to questions from a Member he explained that the current protection structure will be in place through to 31 March 2020 to give greatest certainty when setting contribution rates in the 2019 valuation, and that the dates when payments are made by the Fund are specified in the contract.

RESOLVED:

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

55 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER

The Pensions Manager presented the report. He said that the number of employers continued to grow and there were about 45 new employers in the pipeline at the moment. Overall performance had declined in the reporting quarter. The number of outstanding cases had increased and a project team had been created to address the backlog. A simplified leaver process had been introduced for employers. Employer performance had improved over the last two years, and the focus of the Employer Services Team was increasingly on those who were still struggling. At the 2014/2015 year end process there had been 130 employers identified as providing

late or inaccurate data to the Fund. This had reduced to 21 employers reported at 2016/2017 year end, representing a significant improvement over the period.

A Member commented on the amount of work and the potential impact on cash flow that could arise from Fund members exercising their right to transfer to another pension scheme. The Pensions Manager confirmed that a small number of Fund members had already done so, and said that it was important to ensure that those considering it were steered towards appropriate sources of independent advice and information.

A Member said that the performance of some employers as shown in Appendix 3 was appalling. What was the point of targets if employers were not trying to achieve them? He wondered what action the Fund could take to secure improved performance. He conceded that some of the poor performance might be due to staff cuts. The Pensions Manager said that simplifying procedures and the use of new technology would go some way to mitigating the position. The Head of Business, Finance and Pensions said that most problems related to the smaller employers, who only carry out a few pension transactions and lack familiarity with the procedures. It was a challenge to educate and support them. Pressure had been put on software suppliers to make the processes as clear and simple as possible; options being considered included having an on-screen help facility. However, it had to be remembered that it was the Fund that could be fined for poor performance; the ultimate fall-back position was to report breaches by employers to the Regulator. The Fund could levy charges on poorly performing employers under the Administration Strategy.

RESOLVED to note:

1. Membership data, Employer Performance and Avon Pension Fund Performance for the 3 months to 30 September 2017.
2. Progress and reviews of the TPR Data Improvement Plan.
3. Proposed member and Employer feedback.

56 BUDGET AND CASH FLOW MONITORING

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

RESOLVED to note:

1. The administration and management expenditure incurred for 7 months to 31 October 2017.
2. The Cash Flow Forecast to 31 October 2017.

57 AMENDMENT TO TREASURY MANAGEMENT POLICY

The Finance and Systems Manager (Pensions) presented the report. He explained that the only amendment proposed to the existing policy was to delete the words

“based outside the Eurozone” following “Money Market Funds” in the second row of the table in paragraph 7 (agenda page 175). This follows independent advice from the Council’s Treasury Management Advisor, Arlingclose. The current exclusion of Eurozone money market funds severely limits the availability of such funds.

After discussion, it was **RESOLVED** to approve the Treasury Management Policy as set out in Appendix 1.

58 UPDATE ON LEGISLATION, INCLUDING ACADEMIES AND POOLING FORUM CONSULTATIONS

The Technical Manager presented the report.

After discussion it was **RESOLVED**:

1. To note the current position regarding the developments that could affect the administration of the Fund.
2. To agree the policy regarding application of Scheme Pays for Annual Allowance and to approve the policy that scheme members not be allowed to use the Voluntary Scheme Pays provision for any Annual Allowance tax change not covered by the Mandatory Scheme Pays arrangement.

59 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans and training programme for the relevant period.

The meeting ended at 3.40 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services