

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 19th May, 2016

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Steve Harman (Employer Representative), Tom Renhard (Member Representative), Mark King (Member Representative), Tony Whitlock (Employer Representative) and David Yorath (Member Representative)

Also in attendance: Andrew Pate (Strategic Director, Resources), Tony Bartlett (Head of Business, Finance and Pensions), Jeff Wring (Head of Audit West), Geoff Cleak (Pensions Benefits Manager), Steve Makin (Communication and Public Relations Manager) and Julie Masci (Grant Thornton)

52 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

53 APOLOGIES FOR ABSENCE

There were none.

54 DECLARATIONS OF INTEREST

There were none.

55 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed new Members Mark King (Member Representative) and Tony Whitlock (Employer Representative) to their first meeting of the Board.

The Chair informed the Board that he had recently attended an LGPS national conference at which there had been several sessions to allow chairs of Local Pension Boards to share information. The following had emerged in discussion:

- The terms of reference of LPBs vary quite widely.
- LPBs have differing number of members, though all are balanced 50/50 between employer and member representatives.
- All LPBs are working out their roles and responsibilities; all are training their members, though with differing degrees of intensity.
- Some LPB chairs interpret “assisting” the administration authority in the same way as the Avon Board did; some see the LPB as exercising a hard audit function; some want the LPB to undertake projects on things that their local committee could not or did not have the time to do.

- It was felt that national guidance did not cover the practical running of an LPB; the final session agreed that a note clarifying good practice should be prepared and circulated nationally.

The Chair said he felt that he come away feeling that the Avon Board was doing essentially the right things, and was acting in the spirit of the regulations and guidance.

Ms Masci drew attention to a Grant Thornton publication entitled *Stronger futures: development of the LGPS: improving governance in local government pension schemes* (<http://www.grantthornton.co.uk/insights/stronger-futures-development-of-the-lgps/>), which has a section on LPBs.

56 ITEMS FROM THE PUBLIC

There were none.

57 ITEMS FROM MEMBERS

There were none.

58 MINUTES OF 25 FEBRUARY 2016

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

A Member asked about progress on the issue of whether Members of the Board are covered by council indemnity insurance (minute 40). The Head of Business, Finance and Pensions replied that the question had been put to the Council's insurers, who had replied that their initial view was that they are. There is a lack of clarity in the legislation, but he would continue to try to resolve this with internal legal and Council insurers and report back.

The Chair said that this issue had been discussed at the LGPS conference, from which it had emerged that some councils had extended their indemnity insurance to cover LPB members, while others had received legal advice that this could not be done because LPBs are not council committees. Some chairs had suggested that a letter be sent to the National Scheme Advisory Board, which had first raised the issue, asking them to resolve the ambiguity, either by establishing a national insurance policy or by giving clear guidance. He thought that it would some time before the situation was clarified nationally. Overall it was felt that the risk to members was low as they were a non-decision making body.

A Member referred to the discussion the Breaches Procedure and asked how the overpayment of contributions by Bristol City Council (Meeting of 5 November 2015, Minute 27) would be treated. The Head of Business, Finance and Pensions explained that the overpayment had come to light during the accounts closing process; it was something that should not happen again. The Chair said that if something similar did happen in the future, it would potentially be a breach and the Board would have to take a view on it. A Member noted that the Pensions Committee had not adopted the recommendation from the Board that serious breaches should be notified to TPR "immediately" (APF Committee meeting of 18

March 2016, Minute 80). The Chair noted that the word “immediately” was not actually used in TPR guidance. The Head of Business, Finance and Pensions said that it had to be decided what was to be reported and when it was to be reported; it was important not to prejudice ongoing investigations. The Chair suggested that a distinction should be made between “informing” and “reporting”. The Strategic Director of Resources suggested that the word “urgently” might be more appropriate than “immediately”, as it would allow for the need to carry out a local investigation.

59 MINUTES OF AVON PENSION FUND COMMITTEE AND THE INVESTMENT PANEL

A. Avon Pension Fund Committee, Minutes of the Meeting of 18 March 2016

The Chair suggested that issues about pooling (Minute 73) should be taken under the next agenda item.

Minute 74: Review of Investment Policy, including Socially Responsible Investment (SRI): It was noted that this had been delayed because of the need to give priority to pooling. The Head of Business, Finance and Pensions said the Investment Policy was due to come before the Committee in March 2017. In response to a question from a Member, he said that the extent to which SRI policy could take account of environmental concerns needed to be reviewed in relation to the Fund’s fiduciary duty to maximise risk-adjusted returns to benefit Fund members. The Strategic Director of Resources suggested that the role of the Board was to focus on how the APF formed its policies, not necessarily on whether it agreed with them or not. The Chair said that the Government was going to issue new investment regulations and guidance on the investment policy statement. It would be appropriate in due course for the Board to review the extent to which the APF investment policy was complying with these.

B. Avon Pension Fund Committee Investment Panel, Minutes of the Meeting of 24th February 2016

No issues were raised.

Members suggested that the minutes for an exempt item ought to make it clear what the rationale was for taking that item in exempt session.

Members agreed that they wished the minutes of the APF Committee and the Investment Panel to continue to be circulated with agendas. The Chair said that some LPBs were not reviewing the minutes of their committees. He thought that the Avon Pension Board had a good process in place with excellent information sharing arrangements. Responding to a question from a Member, he said that Board Members could attend meetings of the APF Committee and the Panel as observers and vice versa.

RESOLVED to note the minutes of the APF Committee and Investment Panel for 18 March 2016 and 24 February 2016 respectively.

60 LGPS UPDATES AND DEVELOPMENTS

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

For the benefit of the two new Members of the Board he explained the Government's requirement that LGPS funds pool their assets and for the pools to demonstrate a capacity to invest in infrastructure. He gave a resume of the steps taken by the Avon Fund and its partners in Project Brunel to prepare proposals for submission to the Government in July. Project Brunel was proposing a Joint Oversight Board and an investment operations company jointly owned by the member funds. The Joint Oversight Board would have an independent Chair. The Avon Pension Fund Committee has the power to accept or reject Project Brunel's proposals.

The Avon Fund already invested in infrastructure and could invest more, but there was a shortage of infrastructure projects which could generate cash flow.

The Chair commented that the Board's only remit in relation to these proposals is to review compliance with regulations and the TPR code and to consider whether there is efficient and effective governance. It was in the area of governance that that the greatest risk would lie, because public sector pension funds would be owners of a private sector investment company. What would be the relationship between the funds and the company, and which would be the dominant party? The Board should advise the Committee to be sure that it was comfortable with the governance arrangements. He suggested that in due course the Board should examine how the APF Committee, the Oversight Board, the investment company and the Government interacted.

A Member noted that the APF Committee minutes did record concerns about governance arrangements, and he hoped these would be addressed before the Committee was asked to sign off the proposals. The Head of Business, Finance and Pensions said that the members of the APF Committee were being regularly updated about developments. A Member asked about progress on scheme member representation. The Head of Business, Finance and Pensions said that the Shadow Oversight Board was established in the expectation that there would be a period of transition to the final governance structure. There were issues, including scheme member representation, union representation and independent representation, which remained to be resolved. The priority had been to establish the investment company, which would be one of the largest in the country.

The Chair summed by saying that the message of the Board to the Committee was to focus on governance for the sake of the Fund and the scheme members.

RESOLVED to note the report and latest developments.

61 EXTERNAL AUDIT PLAN

Ms Masci presented the report.

She explained that

- The responsibilities of external auditors are prescribed by the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.
- The appointment of auditors to public sector bodies is regulated by Public Sector Audit Appointments Ltd.
- The Avon Pension Fund accounts are incorporated in their entirety within the accounts of Bath and North East Somerset Council.
- There are separate audits for the Pension Fund accounts and the Council's accounts.

She explained that the external auditor is required to give an opinion on whether the annual accounts have been prepared in accordance with proper procedures as defined by CIPFA and international standards, and whether they are full, fair and free of material misstatements. There is also CIPFA guidance about what pension funds should include in their Annual Reports by way of financial and other information. The sole responsibility of the external auditor in relation to the Annual Report is to state whether or not any financial information it contains is consistent with the Accounts. They do, however, study the other information in the Annual Report to see whether it is consistent with their understanding of what was happening in the Fund during the year, and if it was not they would draw attention to that fact. Grant Thornton works for a number of other local authority pension funds, so was in a position to brief funds about what was happening across the sector.

She then commented on the Audit Plan for Avon Pension Fund, attached as Appendix 1 to the report. She drew attention to the statement about materiality on page 8 of the Plan and the information about risks on pages 9-11. She explained that audit fees were set nationally by Public Sector Audit Appointments Ltd.

A Member asked how pooling would affect the audit of the Fund. Ms Masci explained that the new investment company would have to appoint its own auditors, whose reports would be relevant to the work of the Fund's auditors. The external auditor already reviewed the reports issued by the auditors of the investment managers used by the Fund in order to understand what controls were in place within those managers. A Member asked about the role of the external auditor in relation to manager and transaction costs. Ms Masci explained that it was not for the external auditor to express a view on the reasonableness of those costs, but merely to ensure that they were recorded accurately.

The Chair summed up by saying that the work of the external auditor was extremely important in relation to the role of Board. However, the terms of appointment of the auditors did not at present require them to assess Funds against CIPFA best practice guidance for the LGPS. He would like to see the audit contracts for LGPS funds stipulate that the auditors must assess whether fund accounts were prepared in accordance with LGPS-specific guidance. This was something he was pursuing at the national level. The National Board did not think this was an urgent issue in the light of their other priorities and the fact that for the last three years audits had not raised any material issues for any of the 89 LGPS funds.

RESOLVED to note the Audit Plan for the financial year ended 31 March 2016.

62 AVON PENSION FUND SERVICE PLAN

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

He said that there were significant challenges facing the Fund over the next three years including:

- the transition to pooling
- a potentially very large increase in the number of employers in the Fund as schools convert to academies
- the valuation, which is taking place at a time when bond yields are low, necessitating a focus on the Fund's liabilities and liability-driven investment

A Member suggested that it would be helpful to the Fund if new academies joined or formed trusts, as this would reduce the number of new employers. The Head of Business, Finance and Pensions responded that there was still uncertainty about the financial relationship between an academies trust and the individual academies in the trust. Legal advice was being sought about this. There was a risk that the Fund was not protected from the failure of an academy. The Government had not stated clearly the extent to which it would provide guarantees for academies.

A Member asked about staff turnover. The Acting Pensions Manager said that over the last eighteen months about a dozen staff had left for jobs in the private sector. Backfilling and restructuring had taken place. An effort would be made to get the salaries right and make posts more attractive.

The Chair commended officers for a thorough Service Plan. He said that it was important that resources were maintained to ensure efficient delivery of the service.

The Communications and Public Relations Manager gave a presentation about the Avon Pension Fund's new website at <http://www.avonpensionfund.org.uk/>.

RESOLVED to note the 3-year Service Plan and Budget for 2016-19 for the Avon Pension Fund.

63 AVON PENSION FUND RISK REGISTER

The Acting Pensions Manager presented the report.

He explained that the format of the Pension Fund Risk Register was that specified by the Council for all service risk registers and could not be varied.

He said that APF Committee reviewed the Risk Register quarterly.

The Chair said that all Pension Boards were reviewing their funds' risk registers and were all focussing on the most serious risks. The chair of one Board was checking

whether actions were being implemented. He thought the Board should monitor check how long issues were listed as risks and whether risk levels were increasing or decreasing. The Head of Audit West drew attention to the trend column in the Top 10 Risk Summary, which showed the risk level for each item in the three previous periods and to the column providing a commentary on the current status of action plans. The Chair said that the Board should also keep an eye out for risks that were not listed on the Register. He asked whether pooling and its governance should be listed as a specific risk. The Head of Business, Finance and Pensions said that pooling involved a bundle of separate risks that would need to be dealt with specifically. At the present time it was known that there were risks associated with pooling, some of which would depend on the Government's response to the proposals. The major risk components of pooling were not yet known.

The Chair suggested that pooling increased the resourcing risk for the Fund, because key officers might leave the Fund to work for the company running the pool; intelligent clients in the Fund could be lost to the pool and this should be incorporated into the risk register.

RESOLVED to note the report.

64 BENCHMARKING UPDATE

The Acting Pensions Manager presented the report.

A Member suggested that the next time benchmarking was to be considered by the Board a summary report should be prepared; Appendix 2 was rather unwieldy. The Chair said that all Pension Boards were considering benchmarking and it formed a crucial part of the Board's role. The complete picture was set out in Appendix 2 He noted that most of the actions in Appendix 2 had a December deadline, and suggested that the next report should be a summary update on what and had not been completed. A Member suggested that a Red, Amber, Green format for the report would be useful. The Chair agreed. He thought that only about 10 items had ongoing actions. He asked officers to review compliance in relation to the disclosure regulations, where the Fund was only partially compliant. He did understand that further action was required from employers in this area rather than from the central administration of the Fund.

The Chair suggested that the Board should review progress on benchmarking at the November meeting, which was closer to the December deadline than the July meeting.

RESOLVED to note the outcome of the benchmarking exercise and review of TPR's Code of Practice.

65 COMPLIANCE REPORT

The Acting Pensions Manager presented the report.

He said that on 29th April a document had been received containing 22 sets of guidance from the Government Actuary's Department, a number of which required

changes to be backdated. Implementation of some these would require changes to software. There would be a delay of several months before the Fund's software supplier would be able to install the updates. The impact is on an area of administration work where there was already a backlog, namely transfers in and out of the Fund. On 16th March as part of the Chancellors Budget the Government announced a change to the SCAPE rate, which impacts on transfers in and out and on those buying additional pension benefits. Quotes could not be produced automatically at present. Very lengthy manual calculations were sometimes necessary in order to produce quotes.

He reported on software improvements in the pipeline, which would allow the production of more informative performance reports containing local and national benchmarking figures.

He drew attention to the data breach described in paragraph 8.5 of the report. The Head of Business, Finance and Pensions said that the breach had been due to human error; certain aspects of process had been changed, so that a similar breach should not occur in the future. The Chair said that he had seen the report on the data breach, which had been thoroughly investigated and it was not material. The report could be copied to Members if they wished to see it.

A Member asked whether, given the complexity of calculating quotes and the increased possibility of error, whether the Fund would be bound by an erroneous quote. The Head of Business, Finance and Pensions said that it would, unless there was something fundamentally wrong with the information provided by the scheme member; quotes were checked before they were confirmed. The Chair said that if the administrators of the Fund knew there was an error, they should correct that error, whether the consequences were positive or negative for the pensioner.

A Member raised the issue of the provision of information to the Fund by academies. The Acting Pensions Manager said officers were in dialogue with all employers about the timely provision of accurate information. The Chair said that the Board would certainly consider the issue of employer data in the future. He expected that there would be an exceptions report arising from the valuation process, which would give details of any employers who had not provided the data that they were required to.

RESOLVED to note:

1. Performance Indicators and Customer Satisfaction feedback for 3 months to 30 April 2016.
2. Progress on the Data Improvement Plan.

66 TRAINING UPDATE

The Head of Audit West presented the report. He said that it was important that Board Members kept their training logs up to date. The two templates attached to the agenda should be used by Members in future. Three Members had so far completed their logs. It was important that logs were completed now, so that the information could be included in the Board's Annual Report.

The Members who had not submitted their training logs promised to do so.

The Chair urged Members who had not done so to complete the TPR online training course.

RESOLVED to note the report.

67 ANNUAL REPORT

The Head of Audit West presented the report.

He asked Members to note the proposed structure of the Annual Report as described in paragraph 4.4 of the report. He, Fund officers, and the Chair would produce a draft report for consideration at the next meeting of the Board. He suggested that the Annual Report should not just be a list of the things that the Board had done, but should explain the context and give an idea of how the Board thought it should develop in the future.

A Member suggested that the Annual Report should describe the outputs of the Board and what the impact of those outputs had been. He also suggested that the draft Annual Report should be circulated to Members before the meeting agenda was published, so that Members would have an opportunity to feed in comments.

The Chair said that it was important that the Annual Report appeared relevant to scheme members, as the ultimate purpose of the Board was to ensure that they were paid their pensions.

RESOLVED to note the report.

68 WORK PLAN

The Head of Audit West presented the report.

A Member suggested that there should be a joint meeting of Pension Boards in the South West in 6-12 months' time. The Head of Business, Finance and Pensions responded that it would be helpful if Pension Boards adopted a common approach, and that a joint meeting of Pension Board chairs could facilitate this.

The Chair said that the Pensions and Lifetime Savings Association (formerly called the National Association of Pension Funds) were organising a number of courses aimed at Pension Board members. He would arrange for information about these to be circulated to Members. He suggested that a training session on the governance of the pool would be useful for Members.

The Chair agreed with a Member that the Board should monitor how its own performance against regulatory requirements and TPR guidance, just as the Fund was doing, and that some form of checklist would help in this regard.

RESOLVED to note the report and endorse the work plan outlined in Appendix A.

69 DATES OF FUTURE MEETINGS

The dates of future meetings were noted as follows:

27/07/2016 14:00
02/11/2016 14:00
16/02/2017 14:00
11/05/2017 14:00
27/07/2017 14:00

The meeting ended at 1.03 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services