

# **Avon Pension Fund – Local Pension Board – Annual Report**

## **1. Introduction**

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

The Board was established in 2015 following a decision made by B&NES Council to create the Board in response to the Public Sector Pensions Act 2013.

This report covers the period 1<sup>st</sup> August 2016 to 31<sup>st</sup> July 2017 within which the Board has held four formal meetings.

The second year of operation of the LPB was focussed on a core agenda of key governance themes around compliance, risk and best practice as well as monitoring the significant developments connected to Project Brunel. This included -

- a) Establishing its own Terms of Reference and policies and procedures to ensure that its governance complies with the statute and LGPS regulations and best practice guidance issued by the national LGPS Advisory Board;
- b) Supporting development of Board Members skills and knowledge through formal and informal training and agreeing a training plan so its members are fully conversant with their statutory duties and responsibilities for example on the requirements of the Pensions Regulator;
- c) Developing and starting to implement a rolling work programme to fulfil its statutory duties;
- d) Understanding the legislative framework within public sector pensions, compliance standards and significant new developments which may affect future governance such as ‘pooling’.

I am delighted to say that with the support of the officers and advisors to the Avon Pension Fund the LPB has made good progress in fulfilling its terms of reference and continuing to support the Pension Fund in its efforts to establishing sound governance arrangements within Project Brunel.

The LPB has reviewed a wide range of areas and made a number of recommendations (see page 8 and Appendix 1). Examples of such action included the establishment of a formal Breaches Policy.

One of the most important reviews the LPB has undertaken is the funds compliance with the Pensions Regulators Code of Practice 14 (see page 6). The LPB welcomes the actions being implemented by the fund to ensure it fully complies with the Code before the LPB carries out its next annual review of compliance.

The LPB has also reviewed the Pension Funds communications and stressed the need for information to be kept up to date and the importance of the fund website to fund members

Looking ahead the LPB will seek to assist and support the Avon Pension Fund in respect of minimising potential governance and other risks arising from the Governments proposed asset pooling in 2017-18.

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

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

#### **Background**

At the request of central government Lord Hutton conducted a wide ranging review into public service pensions and published his findings in a report in March 2011 recommending significant change to the governance of Pension Funds, *'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 (Administering Authority) in running the Pension Fund.

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 in that process.

Therefore the LPB is separate to the Avon Pension Fund Committee (Section 101 committee) to which as administering authority (the Council) it has delegated its functions in relation to the administration of the LGPS.

#### **Specific Role and Purpose**

The Public Sector Pension Act 2013 therefore sets out the requirements for the establishment of a Board with the responsibility for assisting the scheme manager in relation to the following matters:

- 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 LPB therefore works with the Avon Pension Fund Committee to scrutinise its decision making process and ensure the Fund's compliance with its legislative requirements and is not a decision making body.

#### **Pension Regulator**

From April 2015, the Pension Regulator had responsibility for the LGPS. Therefore a focus for the LPB was in ensuring compliance with the Regulator's code 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 Pension Fund Committee on ways to address these requirements.

#### **Terms of Reference**

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

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

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### 3. Establishment of Local Pension Board

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

Adverts for the role of Chairman 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 – 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 compliment of employer and employee members are now in post.

#### **Details of the Local Pension Board Members**

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

Howard Pearce, former Head of Pension Fund Management, Environment Agency.

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

Gaynor Fisher, active member

Steve Harman, active member

Tony Whitlock, active member

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

David Yorath, retired member

Tom Renhard, active member

Mark King, active member

The register of interests for members of the Local Pension Board and details of each individual's relevant experience are available through the following link.

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

#### **Attendance at Local Pension Board Meetings – August 2016 – July 2017**

Role	Board Member	Attendance
<b>Independent Chairman</b>	Howard Pearce	2/2
<b>Employer Representative</b>	Gaynor Fisher	1/2
	Steve Harman	0/2
	Tony Whitlock	2/2
<b>Member Representative</b>	David Yorath	1/2
	Tom Renhard	2/2
	Mark King	2/2

#### **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**

Briefings were given by officers from the Avon Pension Fund to LPB members on a full range of topics covering the LGPS framework, Avon Pension Fund and its administration.

In addition three Board Members attended the LGE Pensions Fundamental Course and five completed the on-line tPR e-learning public sector pension module toolkit.

Training is a regular topic at each formal board meeting and all Board Members retain their own training log, which is also submitted annually to assist in the completion of ongoing needs into a Training Plan.

Details of areas discussed, updates and plans 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 signed up to a Code of Conduct in July 2015 which emphasised 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 also signed up to their own Conflicts of Interest Policy in November 2015. This requires all members to notify Democratic Service 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 through five 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 Pension Board continued to monitor its budget on an annual basis (February 2017) to enable the Board to perform its duties and a summary of costs for the year is included below –

### Summary Financial Table

Budget Area	Actual Costs (TBC)	Budget
LPB Members Allowances	£8,000	£12,000
LPB Members Training Costs	£1,500	£3,000
LPB Meeting & Democratic Services Costs	£9,000	£8,000
Central Recharges & Officer Costs	£15,600	£17,000
<b>Total</b>	<b>£34,100</b>	<b>£40,600</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.

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### **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, officers carried out a self-assessment of the LPB’s current arrangements against the Regulator’s Code of Practice No.14.

The full results of this exercise were reported to the LPB’s formal meeting in May 2016 and are available via the following link.

<https://democracy.bathnes.gov.uk/documents/s41759/Benchmarking%20update%20App2.pdf>

In summary the LPB and the fund were compliant with the Code and the self-assessment identified only a small number of recommended actions to take in meeting best practice, which included –

- Monitoring of Data Improvement Plan
- Managing Overdue contributions
- Records of Investigations and correspondence
- Production of Annual Benefit statements in required formats
- Provision of basic scheme information to new entrants
- Review Dispute Resolution procedures
- Review Employer obligations re: IDRP Procedures
- Review Employer obligations re: TPAS and Pensions Ombudsman Procedures

The Board remain committed that the exercise should be revisited at least annually to ensure it could evaluate its compliance and assess improvements where necessary.

### **8. Pension Fund Communications**

Effective communications form a core part of the role of the Avon Pension Fund and during the year the Board reviewed the new website which had been developed by the Fund as well as the overall Communications Strategy.

The Board welcomed the new website which had refreshed and simplified the way information on the Fund could both be located and sought and commended the actions of officers. Reviewing the strategy for how the fund communicates to its many stakeholders will remain a key element of the work plan of the Board on a rolling basis.

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### 9. Risk Management

Risk management processes for the Avon Pension Fund follow the framework laid down by the Council. The Risk Register for the fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

The Register is reviewed regularly by the pension management team and risks fall into one of the following categories –

- (i) 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 National Scheme
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions

The LPB's ongoing review concurred with the views of Avon Pension Fund Officers in that the three top risks facing the fund revolve around –

- Project Brunel and future implications of pooling arrangements
- Significant growth of new employers through the Academies agenda
- Future Funding Strategy

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 will continue to ensure that a review of the risk register will remain a regular agenda item.

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### 10. Summary Review of Areas Covered in 2016/17 & Recommendations Made

The second year of operation of the LPB was focussed on a core agenda of key governance themes around compliance, risk and best practice as well as monitoring the significant developments connected to Project Brunel.

A summary of the areas covered and recommended is detailed as follows (**Full Details at Appendix 1**) –

<b>Establishment of LPB Arrangements, Policies &amp; Procedures</b>
Ongoing:  Review of LPB Terms of Reference  Review of LPB Code of Conduct  Review of LPB Conflicts of Interest Policy  Review of Avon Pension Fund Regulatory Breaches Policy  Review of Training Requirements  Review of Work Plan
<b>Review of Pension Fund Administration</b>
 Review of Compliance Reports  Review of Risk Register  Review of Service Plan  Review of Annual Report  Review of Communication Strategy
<b>Independent Assurance</b>
 Review of TPR & CIPFA Benchmarking exercises  Review of External Audit role and reports  Review of Internal Audit role and reports

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### 11. Forward Plan for 2017-18

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

AGENDA ITEM	TBC – 7 Nov 17	TBC – 15 Feb 18	TBC – 24 May 18	TBC – 19 July 18
Conflicts of Interest Declarations	X	X	X	X
Training Plan Update (Incl. Annual Plan)	X	X	X	X
Work Plan Update	X	X	X	X
Avon Pension Fund Committee & Investment Panel Minutes	X	X	X	X
LGPS Developments & Updates	X	X	X	X
Risk Register Update	X	X	X	X
Review of Pension Fund Annual Report	X			
Review of Administration Strategy				
Compliance Report	X	X	X	X
Internal Audit Plans & Update		X		
External Audit Plans, Accounts & Governance Report	X		X	
Pension Board Budget		X		
Benchmarking Update	X		X	
Avon Pension Fund Service Plan 17/18			X	
Pension Board Annual Report			X	X
Review of Communications Strategy				X
Review of Statement of Investment Principles (Statutory Investment Strategy Statement)		X		
Review of Policy Framework	X			
Review of Valuation & Funding Strategy	X			
Review of Data Integrity & Action Plans		X		
Review of IT Security & Business Continuity			X	
Review of Governance Compliance Statement			X	

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AGENDA ITEM	TBC – 7 Nov 17	TBC – 15 Feb 18	TBC – 24 May 18	TBC – 19 July 18
Review of compliance with TPR COP 14		X		
Review of Fund Internal Controls & Delegations		X		
Review of External Advisors				X
Review of Fraud Risk Strategy		X		
Review of Complaints/IDRP Procedures			X	
Review of outcome of GMP reconciliation				X

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

	Area	Action
<b>All meetings</b>	<b>Pension Committee and Investment Sub-Committee Decision Making</b>  <b>Training and Work Plan requirements</b>  <b>LGPS Developments</b>  <b>Project Brunel Developments</b>  <b>Compliance Report</b>  <b>Risk Register</b>	<p>The Local Pension Board actively scrutinised all Pension Committee and Investment Sub-Committee papers and minutes and considered their impacts in terms of the meeting agenda</p> <p>Monitor and update training plans for the Board and work plan for each meeting</p>
<b>2<sup>nd</sup> November 2016</b>	<b>LGPS Developments</b>          <b>Code of Practice 14 Update</b>       <b>Actuarial Valuation Update</b>       <b>GAD Section 13 Update on LGPS Funds</b>       <b>Risk Management</b>	<p>Resolved:</p> <p>To note Performance Indicators and Customer Satisfaction feedback for 3 months to 30 September 2016 &amp; Data Improvement Plan.</p> <p>To recommend to the Fund that:</p> <p>a) poorly performing employers, whether they undertake training or not, should be required to sign an improvement action plan;</p> <p>b) a letter should be sent to poorly performing employers advising them that they could be reported to The Pensions Regulator.</p> <p>To note the outcome of the review of the TPR's Code of Practice No 14 and latest position against best practice.</p> <p>Note the Report</p> <p>Note the Report</p> <p>Note the Report</p>
	Area	Action
<b>16<sup>th</sup> February 2017</b>	<b>LGPS Developments</b>       <b>Project Brunel Update</b>	<p>Resolved:</p> <p>Note the report</p> <p>Note the report</p>

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	<b>Investment Strategy Statement Update</b>	To request the Head of Business, Finance and Pensions to circulate the investment strategy statement to Pension Board members to enable them to comment on its compliance with DCLG statutory guidance. The statement will then be submitted to the Pensions Committee for consideration along with any comments received.
	<b>Valuation Update Report</b>	Note the Report
	<b>Compliance Report</b>	To Note a) the membership data, employer performance and Avon Pension Fund performance for the 3 months to 31 December 2016. (b) Progress and reviews of the TPR Data Improvement Plan.
	<b>Benchmarking Update</b>	Note the Report
	<b>Risk Management</b>	To note the report and to receive the full risk register including the top 10 risks at the next meeting.
	<b>Internal Audit Update</b>	To note the report and outcomes from Internal Audit work. To request that the following areas be included in the B&NES Council Audit Plan for 2017/18: a) Pensions Investments b) Pensions Administration – System Calculations c) Pensions Administration – Employer Contributions d) Pensions Governance (COP 14) e) Pensions Payroll
	<b>Training, Work Plan &amp; Budget Updates</b>	To note the report and to endorse the high level Training and Work Plans outlined in Appendices 1 and 2 of the report and the indicative budget at Appendix 3. To receive future training as a group on the governance relating to the Brunel Project.
<b>23<sup>rd</sup> May 2017</b>	<b>LGPS Developments</b>  <b>External Audit Update</b>  <b>Pension Fund Service Plan</b>  <b>Risk Register</b>	Resolved:

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	<b>Investment Strategy Statement</b>  <b>Compliance Report</b>  <b>Training &amp; Work Plan Updates</b>	
	<b>Area</b>	<b>Action</b>
<b>27<sup>th</sup> July 2017</b>	<b>LGPS Developments</b>  <b>Project Brunel Update</b>  <b>Communications Strategy</b>  <b>Compliance Report</b>  <b>Risk Register</b>  <b>Annual Report</b>  <b>Training &amp; Work Plan Updates</b>	Resolved: