

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 19th July, 2018

Present:- Howard Pearce (Chair), Gaynor Fisher (Employer Representative), Tom Renhard (Member Representative) and David Yorath (Member Representative)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Andy Cox (Audit Manager (Audit West)), Geoff Cleak (Pensions Manager), Carolyn Morgan (Employer Services Manager) and Alan South (Technical Manager)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

21 APOLOGIES FOR ABSENCE

Apologies were received from Steve Harman and Tony Whitlock.

22 DECLARATIONS OF INTEREST

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair reminded Members of the role and purpose of the Board, which is to help the administering authority to secure compliance with LGPS Regulations and the requirements of the Pensions Regulator, and to ensure the efficient and effective governance and administration of the Avon Pension Fund scheme.

The Chair reported that he, David Yorath and Tom Renhard had attended the CIPFA Local Pension Board Conference in London on 27th June. He highlighted the following issues that had been discussed:

- there had been a lot of debate about representation and it was agreed that Brunel possibly had the most balanced representation. Brunel was also felt to have the best practice for asset pools.
- the conclusion of the Pensions Regulator's annual Public Service Governance and Administration Survey (<http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2018.pdf>) that performance improvements had stalled in some LGPS schemes had surprised delegates. TPR is considering spot checks and random visits to LGPS schemes in the coming year.
- GAD 2017 Section 13 Report: funds with lower ratings will be contacted by the Government Actuary's department.
- CIPFA, which published a Guide for Local Pension Board Members in May, announced a number of publications that will appear over the next 3-6 months

which will also be of interest to LPB members. They will issue a document on administration reporting and best practice in key performance indicators and an update on fund annual report and accounts. There will also be something on accounting for cost savings.

- indemnity insurance for LPB members: nationally about 80% of LPB members now have cover. The situation of this Board, discussed at several previous meetings, has now been resolved as the Head of Business, Finance and Pensions has arranged cover for Members.

The Chair invited David Yorath and Tom Renhard to comment on the conference. David Yorath said that he had been surprised to learn that £1.2bn, or only 0.5% of the LGPS, was invested in infrastructure, despite the facilitation of investment in infrastructure being one of the main reasons given by the Government for pooling. The Head of Business, Finance and Pensions replied that APF had invested in infrastructure for a number of years. Infrastructure is an extremely wide asset class, requiring specialist management, which can be very expensive. In addition infrastructure investment draws down investment over an extended period with some projects requiring upfront funding before delivering returns in future years. Brunel is establishing an infrastructure portfolio. It is likely that there will be an increase in investment in infrastructure by LGPS funds. At the moment funds generally invest in infrastructure globally whereas the Government preference is to encourage investment in UK infrastructure.

Tom Renhard said that it had been useful to learn what other LPBs were doing.

24 ITEMS FROM THE PUBLIC

There were none.

25 ITEMS FROM MEMBERS

There were none.

26 MINUTES OF PREVIOUS MEETING: 24TH MAY 2018

It was noted that the second sentence of the fifth paragraph of item 13 on minute page 5 (agenda page 9) was garbled:

“There combination of Some regulatory benchmarks being not fit for purpose, and the employers, who were a key source of data, not having any common standard was a major challenge.”

and that this should be amended to:

“There was a combination of some regulatory benchmarks being not fit for purpose, and the employers, who were a key source of data, not having any common standard. This was a major challenge.”

The minutes were approved as a correct record subject to this amendment.

Matters Arising

The Chair noted the outstanding action from previous meeting on the LPB request to receive training on the accounting, auditing, and reporting of cost savings arising from asset pooling with BPP.

The Chair also asked for an update on how the Board could input to the updating of the Administration Strategy (top of minute page 9, agenda page 13). The Head of Business, Finance and Pensions replied that officers had been working with the legal adviser on whether there could be a conflict of interest if the Fund provided administrative services to employers and charged them for those services. It was intended to bring the revised Administration Strategy to the September meeting of the APF Committee, but this would now be postponed to the December meeting. The earliest it could come to the Board would be the November meeting. The final version would then come to the Board in March 2019.

RESOLVED that LPB would in due course receive training on how asset pooling cost savings would be accounted, audited and reported; and the LPB would be consulted on the APF draft administration strategy, with both being later in 2018 or early 2019.

27 PENSION BOARD ACTION LOG

RESOLVED to note the Action Log.

28 MINUTES OF THE MEETING OF THE AVON PENSION FUND COMMITTEE OF 22ND JUNE 2018

A Member asked whether Members of the Board would be able to attend exempt sessions at meetings of the APF Committee and Panel as observers. He suggested it would assist Board Members in the performance of their duties if they could observe exempt sessions. The Head of Business, Finance and Pensions said that he believed this was not permitted under the Terms of Reference. Another Member suggested that it was sometimes difficult to understand the thinking process of the Committee and Panel from the written minutes alone and that there would not be an enhanced risk of the disclosure of sensitive information, since the Board Members would be subject to the same restrictions as APF Committee and Panel members were. The Chair formally requested that Board Members be permitted to attend exempt sessions of the Committee and Panel, if this was permitted under the Terms of Reference and relevant guidance. The Head of Business, Finance and Pensions replied that he would respond in due course.

Before discussing the exempt minutes of the meeting, the Board, 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 while the exempt minutes were discussed and that the reporting of this part of the meeting should be prevented, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

RESOLVED to note the draft public and exempt minutes of the meeting of the Avon Pension Fund Committee of 22nd June 2018.

29 MINUTES OF THE MEETING OF THE AVON PENSION FUND COMMITTEE INVESTMENT PANEL OF 23RD MAY 2018

RESOLVED to note the minutes of the meeting of the Avon Fund Investment Panel of 23rd May 2018.

30 LGPS UPDATES

The Technical Manager presented the report and commented on the summary of issues in Appendix 1.

The Chair reported that the MHCLG and LGA representatives attending the CIPFA LPB conference had asked for volunteers to participate in the three new projects added to the Scheme Advisory Board 2018/19 work plan:

- improving member data to meet the TPR requirements
- identifying regulations requiring statutory guidance and the drafting of such guidance
- identifying the potential benefits of further separation between the administering authority and the scheme manager role

He suggested that APF officer participation would provide an opportunity to influence the outcome.

The Chair asked whether the LGPS (Amendment Regulations) 2018 had helped remove administrative bottlenecks and reduce backlogs. The Technical Manager replied that since the Regulations had been issued there had been a reduction in the number of enquiries from employers and scheme members. The removal of the requirement to seek employers' consent before early payment of benefits before the age of 60 has been helpful.

The Head of Business, Finance and Pensions commented that the report showed the demand placed on the resources of the Fund by the large number of sometimes conflicting initiatives and developments. A Member said that at the LPB national conference concern had been expressed about the various national organisations with supervisory and regulatory responsibilities for the LGPS working in isolation rather than in a co-ordinated fashion.

RESOLVED to note the report and latest developments.

31 BRUNEL PENSION PARTNERSHIP - VERBAL UPDATE

The Head of Business, Finance and Pensions updated the Board.

The minutes of the meeting of the Brunel Oversight Board (BOB) of 22 March 2018, inadvertently omitted from the agenda papers, had been circulated to Members.

The Head of Business, Finance and Pensions advised that they had been approved at the meeting of BOB of 18 July. He said that the transition of assets to Brunel was underway, with priority being given to the equity portfolios. Reports would be made to the BOB on the costs of transition and savings in managers' fees.

The shareholders had agreed to a change in the BOB Terms of Reference to allow fund representatives to be substituted at BOB meetings by a member of the relevant pensions committee. BOB had made recommendations on two reserved matters. The first was that some caps and controls should be included in the remuneration policy. The second related to the private market service developed by Brunel, the costs of which would be quite high including the appointment of an administrator. The benefit would be that the transition of private market assets could be accelerated. If this were not done, costs would be higher. In reply to a question from a Member, he said that at the moment a pay ratio between highest and lowest salaries had not been proposed, though this and all aspects of equality were under review.

The original Brunel business case was being reviewed, and a revised business plan would be presented to BOB in September.

Policies were being developed on voting at company meetings and stock lending. Key Performance Indicators were being developed. A Member asked how scheme members could make their views known about issues to be voted on at company meetings. The Head of Business, Finance and Pensions explained that all the funds have policies about proxy voting. However, it was a challenge to find ways of representing scheme members' views at the Brunel level; Brunel's fiduciary duty was to the funds, not to the members of the funds, but there are member representatives on BOB, with whom issues can be raised. The Chair suggested that there was also an internal channel of communication through the Head of Business, Finance and Pensions.

The shareholder representative had produced an independent report for BOB and had indicated that he was pleased with Brunel's progress.

A Member said that it would be useful to have comparative information of the asset allocation and the returns on assets and investment costs before the business case, at the time of the business case and at transition. This would identify the savings that Avon made before transition, so that the benefits of pooling could be accurately measured. The Head of Business, Finance and Pensions replied that this would be very difficult and complicated, because of the changes in allocations since the business case, and changes in managers and portfolios. However, the information about costs and savings presented to BOB would be shared with the Board. The Chair commented that Brunel's first annual report and accounts had been rather brief and uninformative and urged them to produce something more useful.

RESOLVED to note the update.

32 FUND GOVERNANCE FRAMEWORK

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

Members noted that the amended Terms of Reference would be presented to the Council for approval in September along with the Fund's annual report.

Members considered the compliance statement, and noted that the Fund is fully compliant in all areas except representation, where it is partially compliant. A Member commented that full compliance would not be achieved in this area, because of the very wide range of employers in the scheme. The Head of Business, Finance and Pensions said that it may be easier to provide representation for schools when most academies were part of multi-academy trusts.

RESOLVED to note that the Committee:

1. Noted the roles and responsibilities of members, advisors and officers;
2. Approved the revised Terms of Reference of the Committee and Investment Panel subject to the following amendment for the Investment Panel:

“Monitor the investment performance of the portfolios managed by Brunel” should be amended to “Monitor the transition of assets to Brunel and the investment performance of the portfolios managed by Brunel”;

3. Approved the Governance Compliance Statement;
4. Agreed the membership of the Investment Panel;
5. Agreed the member(s) to represent the Fund on the Local Authority Pension Fund Forum.

33 SCHEME EMPLOYERS AND ADMITTED BODIES UPDATE

The Pensions Manager presented the report.

Members were provided with a copy of an employer analysis showing the higher-risk employers in the Fund. The Head of Business, Finance and Pensions explained that this information would be an important input into the development of the funding strategy.

The Chair referred to the Scheme Advisory Board's (SAB) project on academies, whose results were expected later this year. One idea being considered was whether all academies should be allocated to one or several larger funds. It was noted that academies feature on the Fund's Risk Register. Risks are posed by the ability of academies to opt in and out of MATs. There was also a question about the optimum size of a MAT.

RESOLVED to note the information in the report and to await the outcome of the SAB project.

34 PENSION FUND MISSING ADDRESSES - VERBAL UPDATE

The Pensions Manager updated the Board.

He reported that before the beginning of the project there had been 5,600 members for whom addresses were missing or who were reported as 'gone away'. When the project commenced there were basically two categories, active members numbering 420, and the rest, including deferred members and those entitled to refunds, numbering 5,200. Accurate Data Services was engaged to check the accuracy of address data; progress will be reported later this year. The group of 5,200 addresses were put through a multistage checking process. The first stage was mortality checking, which identified 122 members as having passed away, for 95 of whom pension payments had already been suspended. The remaining addresses were put through stage 2, the automation process, and compared with market activity. Just under 2,000 of these were flagged up as meeting the accuracy threshold and 3,100 as failing the threshold. These 3,100 were progressed to stage 3 – basic manual tracing process. Letters have so far been sent to the 1,500 addresses scanned with 629 addresses being confirmed as correct. Responses were still awaited to the majority of letters sent out. 43 were returned as 'not at this address'. The remaining batch of 1,600 is now being processed. There is a final stage 4 of the checking process, which provides a forensic test at an additional cost of £45 per case. A further review and cost analysis will be undertaken before beginning stage 4.

So far approximately 10% of the original 5,600 addresses had been confirmed. The project had therefore achieved some success. Members agreed that the cost of the project versus the value of the members pension benefit entitlements had to be kept constantly under review. It was also noted, however, that TPR lays great emphasis on fund having complete and accurate membership data in compliance with the law. A further update report will be made to the Board at the November meeting. The Chair said it would helpful to see statistics for missing addresses for other LGPS funds due to be supplied to the TPR in 2018, and he was aware of lower numbers for other funds.

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RESOLVED to note the update and that a report would come to the next meeting.

35 GDPR IMPLEMENTATION UPDATE

The Pensions Manager presented the report.

He said that further work needed to be done, particularly in relation to the data mapping exercise. Most third-party contracts had been reviewed. Some funds in the south west had made greater progress with implementation than Avon had, while others were further behind.

The Head of Business, Finance and Pensions advised that the ICO had plans for testing compliance; the prospect of testing would give a greater incentive to achieve compliance. In response to a question from the Chair, he said that the Fund's project

plan should be completed in 2019. The implementation would be the subject of an Internal Audit report.

The Board will receive a further report at the November meeting.

RESOLVED to note the Fund's progress on the implementation of the General Data Protection Regulation and that a report would come to the next meeting.

36 INTERNAL AUDIT UPDATE

The Audit Manager (Audit West) presented the report, which updated the Board on Internal Audit (IA) work relating to the Fund in 2017/18.

Two further IA reports had been issued since the IA reports on Pensions Governance and Pensions Transfers and Aggregations were presented to the February meeting of the Board.

The first was a report on the Brunel Transition, which focussed on stage 3 of the project, planning and set-up for asset pooling, which ran from July 2016-April 2018. An audit opinion of Level 5 – Excellent was given. One weakness was identified in the audit action plan, namely the risk of the Fund being unable to recruit appropriately skilled technical or investment staff, because of the transfer of key officers to Brunel and the short supply of such staff in the regional job market. The IA recommendation was that other BPP funds be approached to see whether resources could be shared with them on a short-term basis. Fund management responded that opportunities for this were limited because other funds shared the same difficulty. Following the Committee's approval in March 2018 of additional staff resource for the Investment Team, Fund management indicated that recruitment was expected to take place in 3Q 2018. The Head of Business, Finance and Pensions confirmed that an additional post had been created to deal with valuation and compliance issues. There was still uncertainty about how the developing relationship with Brunel would impact on the work of Avon staff, particularly in relation to governance. The Chair congratulated the Investment Team for achieving an Excellent rating.

The second report dealt with employee contributions. For this a rating of Level 4 – Good had been given. An assessment of Good had been given for all key control objectives, apart from the reconciliation of the Pension Fund System to the Pension Fund bank account, which was assessed as Weak. Management had responded very positively to the audit recommendations. IA would follow up implementation before the end of 2018/19. The Chair requested a further report to the Board when the follow-up had been completed.

RESOLVED to note the report and outcomes from Internal Audit work and that an audit follow report would come to a future meeting.

37 RISK MANAGEMENT - VERBAL UPDATE

The Pensions Manager updated the Board.

Members were provided with a copy of the APF Risk Register.

He asked Members to note that the separate risk relating to recruitment to the Administration Team had been amalgamated with the risk relating to recruitment to the Investments Team. There was a continuing churn of staff, the consequence of having a young work force. Four new apprentice recruits would be joining in September although some temporary posts remained vacant. The Head of Business, Finance and Pensions said that the average age of staff used to be late 40s, but was now late 30s-early 40s. Unemployment was low, so there was a lot of competition for staff. The use of apprentices would be considered. In response to a question from the Chair he confirmed that the review of staff salaries had not yet commenced, but was very much on the agenda. The Chair noted that many employers were increasing notice periods from one month to three months, and suggested that the Fund look at this. He noted that recruitment had been listed as a high risk for a long time. The risk was being managed, but was not declining. The Pensions Manager also asked members to note the new risk (R57) had been added, specifically addressing the risk that the Fund does not comply with LGPS Transparency Code. The Fund has resource in place to manage this and will also have support from BPP. Therefore, the risk is low, with the main risk being reputational if the Fund is cited as non-compliant with the code.

RESOLVED to note the update.

38 PENSION COMMITTEE ANNUAL REPORT

The Chair observed that this had already been approved by the APF Committee. It would be presented to the Council in September at the same time as the Board's Annual Report.

RESOLVED to note the APF Committee's Annual Report.

39 PENSION BOARD ANNUAL REPORT

The Chair invited comments from Members.

A Member pointed out that 'DCLG' in the ninth paragraph on page 1 (agenda page 129) should now be 'MHCLG'.

The Chair suggested that 'review' was perhaps overused on page 8 (agenda page 136) and should be varied, and that on pages 138-139 any recommendations made by the Board at each meeting and action taken by the fund should be included in the Action/Minutes column as well as the URL for the relevant set of minutes. Members agreed to these amendments.

RESOLVED to approve the annual report subject to the comments made above and approval of the final version by the Chair.

40 TRAINING AND WORK PLAN UPDATE

The Chair encouraged Members to complete the LGPS Confidence Survey and to consider whether they wished to attend any of the CIPFA courses mentioned in the email he had sent them, or any other relevant training.

Members requested to be included in any training about the valuation arranged for APF members.

RESOLVED to note the report and endorse the high-level Training and Work Plans outlined in Appendices 1 and 2.

41 FORWARD LOOK

It was agreed that all issues had been covered under other items.

42 DATE OF NEXT MEETING

It was noted that the next meeting of the Board was scheduled for 8 November 2018.

The meeting ended at 4.04 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services