

1 THE ISSUE

- 1.1 The existing Governance arrangement including Committee and Investment Panel structures have been in place since 2006 with very little material change. However the environment within which the Committee operates has changed dramatically including increased regulatory oversight via the Pensions Regulator, Scheme Advisory Board and our own Local Pension Board, the introduction of Pooling and formation of Brunel Partnership, the need to be MIFID II compliant and an overall increase in regulatory requirements. The LGPS itself has undergone two fundamental changes, there has been a significant increase in Fund Employers and the investment strategy is increasingly technically complex.
- 1.2 It is therefore timely to review the existing governance arrangements to ensure the Fund remains fit for purpose, has sufficient capacity to focus on key strategic issues and can operate efficiently in what has become an extremely complex and dynamic environment

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1 **Agree to the proposed changes to Committee membership namely**
 - a) **A reduction in Bath and North East Somerset Council representation from 5 to 3**
 - b) **Addition of a further Independent Member to the Committee**
 - c) **Addition of an Academy Representative**
 - d) **To consult with Employers over these proposed changes**
- 2.2 **Agree to the establishment Brunel Working Group as an informal sub group of the Committee**
- 2.3 **Agree to the proposed changes to Terms of Reference of**
 - a) **The Avon Pension Fund Committee**
 - b) **The Avon Pension Fund Board for consultation with the Board**
 - c) **To consult with the Avon Pension Fund Board in respect of these changes**

3 FINANCIAL IMPLICATIONS

- 3.1 There will be a small impact on costs to fund an additional independent advisor in the region of £20,000 per annum

4 CONTEXT

- 4.1 The environment within which the Avon Pension Fund operates has changed rapidly over recent years, a trend which seems set to continue. Scrutiny, regulation and compliance requirements have had

a significant impact on workload and the continuing development of the Funds Investment and Risk Management Strategies, together with the advent of pooling have further increased the work of both the Committee and Investment Panel. At the same time the Committee is dealing with the challenges represented by an increasingly fragmented and growing employer base and work with the Local Pension Board to ensure administrative compliance.

4.2 It would seem there will be no respite from this dynamic environment for some time to come as pooling transition extends into 2021 and agendas of the Scheme Advisory Board, Pensions Regulator and indeed CIPFA seek to improve standards across public sector pensions overall. It should also be noted that the Fund will undertake the triennial valuation in 2019/20 and comprehensively review its Investment Strategy at the same time.

4.3 This “dynamic” creates a number of ongoing challenges for the Fund which now need to be addressed viz:

- a) Ensuring the Committee has sufficient capacity and enhanced capability to deal with all the strategic challenges it faces. MIFID II requires the Fund to demonstrate its overall competency to become a “professional” investor
- b) Ensuring there is sufficient oversight of core strategy and policy development and implementation; Administration, Funding and Investment including managing the relationship with Brunel and Brunel Oversight Board
- c) Having sufficient time to consider emerging and crystallising issues of national and global significance issues and their strategic impacts
- d) How to ensure the committee remains representative of its employer interests, reflecting the changing composition of the employer base within the Fund. The Fund is only partially compliant with this aspect of the Governance Compliance statement

4.4 In considering these issues and in particular working towards a more efficient governance structure, consideration needs to be given to the role of the Committee, Investment Panel, the Local Pensions Board and indeed officers in achieving this.

4.5 Furthermore the Fund has a track record of operating in a highly transparent and open manner which should remain a key principle underpinning any changes to governance arrangements. Finally the Committee should consider how digital communications could also play a role in efficient operations.

5 STRENGTHENING REPRESENTATION & CAPABILITY

5.1 The design (from 2006) of the Committee as it currently stands represents an employer base dominated by fewer large employers. Whilst it is still the case that large employers still reflects a substantial part of the membership, the actual employer base has grown by

several hundred in over the past twelve years due in large part to growth of Academies and associated admission bodies, together with ongoing Council outsourcings.

- 5.2 Administratively, Academies represent the funds single biggest logistical challenge and as an employer group is likely to undergo significant transition over the next few years.
- 5.3 It would be expedient to extend Committee representation to the academies sector to both mitigate Governance Compliance Statement issues and enable a focal point to support improved communications and operational relationships with Academy employers
- 5.4 In 2006 the Fund also sought to manage its continuity challenges with the appointment of two independent members. This has been successful in bringing additional knowledge and experience to the Committee. At a time when the Funds Investment strategy is increasingly complex and the Funds regulatory compliance requirements are equally challenging, it is recommended that the Committee would benefit by strengthening its position with the addition of a further independent member, which would also support retention of the Fund's professional investor status.
- 5.5 To ensure the Committee remains manageable and to reduce the exposure of the Committee to the vagaries of the electoral cycle (the Fund still has 2/3 of its Committee subject to the Electoral cycle), it is recommended that the number of Local authority representatives on the Committee be reduced by limiting the B&NES representation to three voting members.

6 REFLECTING THE DEVELOPING BRUNEL RELATIONSHIP

- 6.1 The Brunel Partnership is now fully engaged in the asset transition programme and the Brunel Oversight Board is fully engaged in ensuring this happens. The relationship with Brunel is complex, the Administering Authority having a role both as Shareholder and Client Fund. At present, engagement with Brunel is undertaken primarily by the Chair of the Committee, Head of Business Finance and Pensions and the Investments Manager through their roles on Oversight Board and Client Group and to date this has primarily been around issues of business start-up and transition planning.
- 6.2 Whilst the transition of assets by Brunel will be monitored and reported on by the Investment Panel (and in time, the monitoring of the Brunel portfolios), the Fund has broader responsibilities particularly in relation to the role of the Shareholder over which the Committee needs to gain assurance. In order to achieve this in a pragmatic way it is recommended that an informal working group of the Committee is formed to include Oversight Board Representative, named Oversight Board substitute plus the Chair and/or Vice Chair if not the BOB representative / substitute plus an independent committee member.

- 6.3 The purpose of the Working Group would be to consider matters of material interest in respect of the structure, operations and contractual arrangements with Brunel including reserved matters informally and advise Committee and/or Shareholder as necessary.

7 CREATING CAPACITY & IMPROVING EFFICIENCY

- 7.1 The workload of the Committee is significant and has been growing annually. Many of the reports provide the Committee with information to enable the Committee to undertake its oversight role and are for comment or noting, whilst only 30% are for decisions. There is also significant duplication between the Committee and Board particularly in respect of Administration.

- 7.2 In order to improve the efficiency of the Committee and generate some capacity to better manage the workload it is proposed to

- a) Change the terms of reference of the Avon Pension Board to make better use of that resource and remove duplication
- b) Move some regular reporting to an informal accessible format; this will enable the Committee and Panel to focus on strategy and policy at meetings
- c) Formalise reporting arrangements from the Investment Panel and Avon Pensions Board to the Committee
- d) Amend the Terms of Reference to accommodate the above changes and clarify the Officers role in relation to operational investment matters

- 7.3 Specifically the intention is to;

- a) Enable the Pensions Board to monitor the implementation of the Administration Strategy and associated projects, together with the monitoring of compliance, providing the Committee with an update of progress and issues
- b) Formalise the arrangements between the Investment Panel and Committee to enable the Panel to regularly update the Committee on Strategy Implementation, developments and matters of strategic importance
- c) Provide a repository for information reports which can be disseminated on an informal basis whilst still affording discussion at Committee as necessary
- d) Maintain the high levels of transparency by ensuring that information remains publicly available via the Fund Website

8 TIMETABLE & PROCESS

- 8.1 The changes proposed to the Committee membership should be consulted on with Employers early in 2019; likewise the changes to the Avon Pension Board should be consulted with the Board.

- 8.2 This will allow the Committee to take a final decision in March 2019 and propose any changes to Council at the Annual General Meeting in May 2019. Implementation will then follow thereafter.

9 RISK MANAGEMENT

- 9.1 The proposals contained in this report are intended to strengthen the Governance arrangements of the Committee particularly in relation to increased compliance requirements and the developing relationship with Brunel Pension Partnership Limited.

10 EQUALITIES

- 10.1 An Equality Impact Assessment has not been completed.

11 CONSULTATION

- 11.1 Discussed in report.

12 ISSUES TO CONSIDER IN REACHING THE DECISION

- 12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

- 13.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.