

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	21 JUNE 2019	AGENDA ITEM NUMBER	09
TITLE:	FUND GOVERNANCE FRAMEWORK		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Draft Governance Compliance Statement			

1 THE ISSUE

- 1.1 This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.
- 1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1, which were approved by Council on 21 May 2019.
- 1.3 The draft Governance Compliance Statement reflects the amendments to the revised Terms of Reference.
- 1.4 The report invites members to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.
- 1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.
- 1.6 Lastly, members are requested to give delegated powers to Officers and the Chair to draft the Annual Report to Council on Committee activity in the past twelve months.

2 RECOMMENDATIONS

The Committee:

- 2.1 **Notes the roles and responsibilities of the members, advisors and officers**
- 2.2 **Notes the approved Terms of Reference of the Committee and Investment Panel**
- 2.3 **Approves the Governance Compliance Statement**
- 2.4 **Agrees the membership of the Investment Panel**
- 2.5 **Agrees the Brunel Oversight Board representative**
- 2.6 **Agrees membership of the Brunel Working Group**
- 2.7 **Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.**

2.8 Agrees to delegate the drafting of the Annual Report to Council to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 ROLES & RESPONSIBILITIES

4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

The Committee and Investment Panel:

4.2 The Terms of Reference for the Committee, including the Investment Panel, can be found in Appendix 1. These have been revised to reflect the new Committee structure which now includes an Academies representative and an additional independent representative. Council approved the revised Terms of Reference on 21 May 2019.

4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.

4.4 The Fund will retain responsibility for its incumbent investment managers until the each mandate transfers to the portfolios offered by Brunel. At that point, Brunel will be responsible for appointing managers to manage the assets within each portfolio, monitoring the managers and reporting back to the Fund about the performance of each portfolio. Therefore during 2018-2021, the responsibility for implementing the Fund's investment strategy will gradually transfer from the Fund to Brunel. The Fund will remain responsible for all strategic decisions such as asset allocation and the risk management framework.

4.5 Membership of the Investment Panel is drawn from the voting members of the committee.

4.6 The Chair of the Committee has been the the Fund's representative on the Brunel Oversight Board of the Brunel Pension Partnership.

4.7 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.

4.8 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.

4.9 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members are required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds when they are appointed to the committee.

4.10 In addition, the MiFID II (Market in Financial Instruments Directive) categorises an LGPS fund as a retail client which restricts the Fund's ability to

invest in more complex and diversified investments. As a result the Fund has been opted up by its investment managers to 'elective professional client' status. To achieve this status the Fund has (and must on an on going basis) provided evidence to its managers that it has the knowledge and expertise within its governance structure to make decisions around complex investments. Therefore ongoing training of all committee members is crucial to maintaining our elective professional status.

- 4.11 The Committee Training plan is reviewed at each quarterly committee meeting. It includes training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.

Fund Advisors:

- 4.12 The guidance on preparing and maintaining an investment strategy statement in support of the LGPS (Management and Investment of Funds) Regulations 2016, regulation 7(2)(a) states "Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries." Regulation 7(2)(b) states that the Fund must "take and act on proper advice in assessing the suitability of their investment portfolio" and regulation 7(2)(e) states "When making investment decisions, administering authorities must take proper advice and act prudently"

- 4.13 The principles for effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG).

Principle 1: Effective decision-making - requires that "administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively... and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive..."

- 4.14 All advisory appointments are appointed under a separate procurement process which will follow the Council's procurement policy. National LGPS procurement frameworks are used where possible as it is a more efficient procurement route and the frameworks are closely monitored for value for money and service levels.

- 4.15 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee's agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund's investment strategy and the managers' performance.

- 4.16 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the Local Government Pension Scheme Regulations 2013. Regulation 62(1) states that "An administering authority must obtain (a) an actuarial valuation" and (b) "a report by an actuary in respect of the valuation".

- 4.17 The Fund is externally audited annually and the Committee considers the governance report submitted by the auditor at the end of the audit. Currently the Council's Corporate Audit Committee approves the Fund's Financial Statement as it forms part of the Council's Financial Statement.

- 4.18 Internal audit undertakes work annually on different aspects of the pension fund, covering new regulations, high risk projects, fraud, governance and process

reviews. The Committee reviews all Internal Audit reports and proposed management actions.

Fund Officers:

- 4.19 The officers' role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, and that all information regarding investment, financial and administrative issues is provided to the Committee/Panel. In addition, the officers are responsible for implementing Fund policy. The Council's Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.
- 4.20 The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted with the Chair of the Committee where possible. For investment policy issues the Section 151 Officer will also consult with the Chair of the Investment Panel where possible.

5 GOVERNANCE COMPLIANCE STATEMENT

- 5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The statement has been updated to reflect the revised Terms of Reference (agreed by Council on 21/05/19).
- 5.2 The Committee are asked to approve the draft Statement in Appendix 2.

6 NOMINATIONS TO INVESTMENT PANEL

- 6.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.
- 6.2 The Panel shall comprise 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 LD and 1 Labour (with a LD Group nominee chairing the Panel) on the Panel was confirmed at B&NES Council meeting on 21 May 2019.
- 6.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting in each year.
- 6.4 Members are invited to nominate themselves to the Panel.

7 BRUNEL OVERSIGHT BOARD REPRESENTATIVE

- 7.1 As one of the 10 clients within the Brunel Pension Partnership, the Fund is represented on the Brunel Oversight Board. As our representative represents both the Committee and Shareholder on the Board, the representative is usually the chair of the committee. Representation will be agreed at the meeting.

8 BRUNEL WORKING GROUP

- 8.1 Given the importance of Brunel to the Fund, a working group is being established to consider issues arising from Brunel Pension partnership with Officers such as

Reserve matters and Oversight Board papers. This working group will not consider routine investment matters which will be monitored and dealt with by the Investment Panel. Representation will be agreed at the meeting.

9 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEETINGS

- 9.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises its members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.
- 9.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Richard Orton has represented the fund at these meetings during the past year. Members are invited to nominate themselves to represent the fund at these meetings (there can be up to two member representatives from the Fund attending any meeting).

10 ANNUAL REPORT TO COUNCIL

- 10.1 As the Avon Pension Fund Committee administers the Avon Pension Fund in accordance with terms of reference set by the Council, it is considered good practice for the Committee to report to Council annually on the work that it has undertaken in the previous twelve months. This report will also include a reference to the future work programme. In addition, the Avon Fund Pension Board will also publish its annual report detailing the work undertaken by the Board during the year, which will be included in the report to Council. Both reports will be published so that they are available for all stakeholders.
- 10.2 The annual report will be presented to Council at 19 September meeting. Committee are asked to give delegated powers to Officers to draft the report which will be circulated to all committee members for comment before being approved by the Chair.

11 RISK MANAGEMENT

- 11.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

12 CLIMATE CHANGE

- 12.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

13 EQUALITIES

- 13.1 For information only.

14 CONSULTATION

14.1 Not relevant.

15 ISSUES TO CONSIDER IN REACHING THE DECISION

15.1 The relevant information is set out in the report.

16 ADVICE SOUGHT

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

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Background papers	
Please contact the report author if you need to access this report in an alternative format	