

Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	24 JUNE 2022	AGENDA ITEM NUMBER	11
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 – Scheme of Delegation Authorisations List Appendix 3 - Scheme of Delegation Schedule Appendix 4 - Draft Governance Compliance Statement Appendix 4a – Draft Representation Policy Appendix 5 – Draft Conflicts of Interest Policy Appendix 6 – Decision Making Matrix Appendix 7 – Training Strategy Policy Appendix 8 – Hymans Robertson Gap Analysis Report			

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. Proposed changes to the Terms of Reference are discussed in Section 4.22 of this report.
- 1.3 The Scheme of Delegation (Appendix 2 & 3) sets out how the Committee delegates some of its responsibilities to Officers. The Schedule details the responsibilities delegated, and the authorisation list sets out who is authorised and the limit of transaction they can authorise.
- 1.4 The draft Governance Compliance Statement is set out in Appendix 4, with a new draft Representation Policy attached as appendix 4a.
- 1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.
- 1.6 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.
- 1.7 Following recommendations from the SAB's Good Governance Review (see Appendix 8) a draft Conflicts of interest policy (appendix 5), Training Strategy Policy (Appendix 7) and a decision making matrix (Appendix 6) are attached for approval.

2 RECOMMENDATIONS

The Committee:

- 2.1 Notes the roles and responsibilities of the members, advisors and officers**
- 2.2 Approves the Terms of Reference of the Committee and Investment Panel**
- 2.3 Approves the Scheme of Delegation**
- 2.4 Approves the Governance Compliance Statement, including draft Representation Policy**
- 2.5 Approves the Conflicts of Interest Policy**
- 2.6 Approves the Training Strategy Policy**
- 2.7 Notes the decision making matrix**
- 2.8 Agrees independent member representation of the Brunel Working Group**
- 2.9 Agrees substitute of Brunel Oversight Board**
- 2.10 Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.**
- 2.11 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 (ToR) for the Committee, including the Investment Panel, can be found in Appendix 1. Any changes to the ToR will be presented to the Council for approval.
- 4.3 Membership of the Investment Panel in the ToR is being updated to reflect best practice and to ensure there is a full range of independent expert advice available. The Panel shall comprise up to 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors (including the Chair and Vice- Chair) and 3 of whom shall be the independent members who provide investment expertise to the Panel and continuity over the electoral cycles. Furthermore, the term of the Panel is to be for the full committee term (4 years), rather than 12 months.
- 4.4 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.
- 4.5 The transition of the liquid, listed assets to Brunel is now complete. Brunel is responsible for appointing managers to manage the assets within each Brunel portfolio, monitoring the managers and reporting back to the Fund about the

performance of each portfolio. The Fund will retain responsibility for its legacy portfolios that will not directly transition to a Brunel portfolio (mainly private market assets that will be wound down over time and then transition in line with the strategic asset allocation at the time). The Fund will remain responsible for all strategic decisions such as asset allocation and the risk management framework.

- 4.6 The Chair of the Committee is 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 SAB's Good Governance Review and The Pensions Regulator's (TPR) Code of Practice for public sector pension funds requires greater disclosure of member training and requires 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 Hyman's LGPS Online Learning Academy modules and 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 must on an on going basis satisfy (and provide 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 Under the CMA (Competition and Market's Authority) Order 2019, the Fund is required to monitor the investment advice provided by Mercer against strategic objectives set by the fund and to submit a compliance statement annually to the CMA.
- 4.17 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”.
- 4.18 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.
- 4.19 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:

- 4.20 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, 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.
- 4.21 The Section 151 Officer has delegated its powers regarding urgent actions to the Director – One West, and these would be exercised having consulted with the Chair of the Committee where possible. For investment policy issues the Director – One West will also consult with the Chair of the Investment Panel where possible.
- 4.22 The SAB's Good Governance Review recommends that each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).The Head of Pensions will be formally recognised as the LGPS senior officer in the council

constitution. This will be approved at the Council meeting due to be held on 21 July 2022 and has also been added to the Committee's Terms of Reference

- 4.23 The Funding & Risk Management Group (FRMG) is a group of Avon Pension Fund officers and specialist advisors whose role is to consider in greater detail all strategic and operational aspects of the Risk Management Strategies. Its full role is set out in the Terms of Reference, section 6.

5 SCHEME OF DELEGATION

- 5.1 In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions are delegated to officers by the Pension Fund Committee.
- 5.2 The Scheme of Delegation schedule sets out the responsibilities delegated by the Committee to officers and how these operate in practice.
- 5.3 The Scheme of Delegation authorisation list sets out the job role or person authorised and the limit of transaction they can authorise.
- 5.4 There have been no changes to the delegations except for updates to current authorised signatory lists.

6 GOVERNANCE COMPLIANCE STATEMENT

- 6.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. There are no changes to the Statement.
- 6.2 Following a recommendation in the SAB's Good Governance Review a draft Representation Policy is attached in Appendix 4a for approval. This sets out in more detail how members and employers are represented on the Pension Committee & Pension Board.
- 6.3 The Committee are asked to approve the draft Statement in Appendix 4 and Representation Policy in Appendix 4a.

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 the chair of the committee. A substitute will also be agreed at the meeting.

8 BRUNEL WORKING GROUP

- 8.1 Given the importance of Brunel to the Fund, a working group considers 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 from one of the independent members 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. 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 the 17 November 2022 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 SAB GOOD GOVERNANCE REVIEW

- 11.1 The Scheme Advisory Board (SAB) launched the Good Governance Review in 2018 and appointed Hymans Robertson to examine the effectiveness of current LGPS governance.
- 11.2 On 15 February 2021, SAB published Good Governance: Phase 3 Report which was produced by the Hymans Robertson project team. The Phase 3 report provides further details on some of the recommendations which will now be submitted to the Local Government minister for consideration.
- 11.3 The Fund commissioned Hymans Robertson to do a gap analysis and make recommendations for improvement. The full report is attached in appendix 8. The main recommendations are:
- a) Formally recognising the Head of Pensions as the LGPS senior officer – the role will be formally added to the council constitution in the Council meeting due to be held on 21 July 2022 and has also been added to the Committee's Terms of Reference.
 - b) Conflicts on Interest Policy – a draft policy is attached as appendix 5 for approval.
 - c) Training Strategy Policy – a draft policy is attached as appendix 7 for approval.
 - d) Decision Making Matrix – the Fund has set out how all decisions are made in the matrix attached as appendix 6 for noting.
 - e) Representation policy – draft policy has been added to the Governance Compliance Statement as appendix 4a.

11.4 Other recommendations will be reviewed and actioned over the next year.

12 TPR SINGLE CODE OF PRACTICE

12.1 On 17 March 2021 The Pension Regulator (TPR) released a consultation on the first phase of its Single Code of Practice (SCOP) including a draft code. This will become the code that is relevant for LGPS funds, replacing Code of Practice 14 and the parts of other codes that currently apply. The SCOP is due to be published in Summer of 2022, when a plan will be implemented to ensure compliance with the new code.

13 RISK MANAGEMENT

13.1 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.

14 EQUALITIES STATEMENT

14.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

15 CLIMATE CHANGE

15.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

16 OTHER OPTIONS CONSIDERED

16.1 None

17 CONSULTATION

17.1 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	None
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