

# **BATH AND NORTH EAST SOMERSET**

## **PENSION BOARD**

Thursday, 9th June, 2022

**Present:-** Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative), David Yorath (Member Representative), Tony Whitlock (Employer Representative) and Alison Wyatt (Member Representative)

**Also in attendance:** Jeff Wring (Service Director - Commercial and Governance), Geoff Cleak (Pensions Manager), Claire Newbery (Employer Services Manager) and Liz Woodyard (Group Manager for Funding, Investment & Risk)

### **1 WELCOME & INTRODUCTIONS**

The Chair welcomed everyone to the meeting.

### **2 APOLOGIES FOR ABSENCE**

There were none.

### **3 DECLARATIONS OF INTEREST**

Alison Wyatt informed the Board that she had recently been appointed as Chief Financial Officer for a Multi Academy Trust in Chard and was therefore part of the Somerset Pension Fund Scheme.

The Service Director for Commercial and Governance commented that there was currently no conflict of interest with this appointment.

### **4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

### **5 ITEMS FROM THE PUBLIC**

There were none.

### **6 ITEMS FROM MEMBERS**

There were none.

### **7 MINUTES OF PREVIOUS MEETING: 22ND MARCH 2022**

The Board approved the minutes of the previous meeting.

## 8 BRUNEL UPDATE (VERBAL)

The Service Director for Commercial and Governance addressed the Board. He explained that Tony Bartlett, former Service Director for Financial Control and Pensions had now left the Council and administration arrangements for the Avon Pension Fund was now within his work area.

He said that they were in the process of recruiting for the position of Head of Pensions and that in the interim he was undertaking this role with the support of the lead Pensions officers and their teams.

Tony Whitlock asked what the likelihood was of being able to make an appointment to this position.

The Service Director for Commercial and Governance replied that a number of applications have already been received and that the closing date was 16<sup>th</sup> June 2022.

The Group Manager for Funding, Investment & Risk addressed the Board. She said that the conflict in Ukraine and the impact that has had on inflation globally, alongside rising bond yields remains a concern as this has a big impact on investment markets.

She said that when sanctions were imposed as a result of the conflict that this meant a certain number of assets were unable to be sold. She added that the Fund had a limited exposure of this nature, around £150,000. She said that managers would now value these assets at zero.

She stated the main impact though is inflation and rising bond yields and the effect this had on our investment performance in the quarter up to March 2022 and in the current quarter. She said that the Fund has very little exposure to sectors and stocks that would do well in an inflationary environment, such as oil, gas, materials and energy and this was because of the tilt the Fund has towards ESG companies.

Therefore, it was difficult for the Equity Portfolios at the present time and that Brunel were monitoring this closely. She said that they would not expect a change in investment approach from managers as they were appointed on the basis of how they invest.

She stated that she felt that a prolonged state of inflation was now to be expected and therefore consideration needs to be given to how this will impact investment returns we achieve versus what is needed for the valuation.

She explained that all benefits are inflation linked and this will have a major pressure on our liabilities which will be a lot higher (will have an impact when the pensions increase rate is set in September).

She said that the period ahead would be challenging but felt the Fund has the ability to ride out this difficult period and should not look to make any knee jerk reactionary decisions.

She informed the Board that Brunel were operating just inside their budget and that discussions were ongoing with regard to their strategic direction and client priorities

for the next 2-3 years. She added that there was a consensus that they should continue to deliver on responsible investing, climate solutions and better reporting.

She stated that a big project was also taking place with Brunel on the Climate Stocktake to review their climate policy, how successful it has been and what the focus should be over the next 2-3 years. She added that this work was due conclude later in the year and then the Fund would use this policy as part of the Strategic Review to ensure we can achieve our own climate objectives.

The Chair commented that it was good to see the ESG focus remain with Brunel but asked if there was a risk should they not redirect themselves sufficiently that they will not be able to meet its fiduciary duty in terms of returns to the Fund.

The Group Manager for Funding, Investment & Risk replied that it was set to be a testing time and said that the Avon Pension Fund did previously have a UK Equity Portfolio which had no investments in oil or gas. She added that the portfolio underperformed for a long period of time but they persisted with it as they believed it would produce the returns required in the long term.

She said that there could be difficult discussions ahead with clients that maybe are not so ESG imbedded as a driver of returns if the situation persists for up to a year, which it could.

She stated that she felt we were in a time of significant market disruption over the next couple of years due to Covid and deglobalisation and inflation. She added that she could not see Brunel swaying from their ESG stance and it would be a case of how they and we manage that risk in terms of our strategic decision making.

The Board **RESOLVED** to note the update.

## 9 LEGISLATION UPDATE

The Pensions Manager introduced this report to the Board and highlighted the following areas.

### Stronger Nudge

With effect from 1 June 2022, the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022 (SI 2022/30) will be introduced – known as the “Nudge Regulations”.

The regulations introduce additional requirements on administering authorities to assist members making decisions in relation to their Defined Contribution investments i.e. AVCs in the LGPS.

Alongside updating processes and procedures in relation to increased requirements for administering authorities on transfer values, the administration team is also considering the required changes in relation to the Stronger Nudge requirements relating to members with AVCs.

The extra requirements (alongside those already effective in relation to transfers) will increase time taken by the administration team to process AVC cases and hence there may be implications on KPIs and resource needed for other projects, which will need to be monitored going forwards.

The Chair commented that it was important to make sure that any members with AVCs were not inappropriately advised and that officers were not undermined in the advice given to members.

The Pensions Manager said that officers could possibly face a challenge from financial advisors, but that it was their role to encourage members to seek independent advice and to record that they had done so.

### Annual Allowance

In March 2022, the LGA issued its response to the HMRC consultation on the Registered Pension Schemes (Miscellaneous Amendments) Regulations 2022, which coupled with changes emerging from the Finance Act 2022 mean there are now additional requirements on administering authorities (and members) in relation to dealing with retrospective changes to pension input amounts for past pension input periods.

In line with guidance issued by the LGA, the administration team will need to ensure that policies and processes are updated in order that retrospective cases can be dealt with in the right manner and within the necessary timescales.

Depending on the number of cases to emerge, these requirements may be an additional burden on the administration team alongside the work associated with issuing 2022 Pension Saving Statements in the autumn.

The Chair said that this presented officers with an onerous task that could see them going back a number of years for the information required.

The Pensions Manager replied that he felt that around 60 – 80 cases of this nature a year were dealt with by officers currently and that this issue would put more reliance upon them to provide members with appropriate guidance.

### Ukraine - (Responsible Investment and administration)

In light of events in Ukraine and the sanctions being imposed on Russia by the UK government, LGPS Funds were advised by SAB to consider the implications for their investment portfolios.

The conflict has also required the administration team to consider payment of benefits to overseas members. The impact on funding strategy will be considered further as part of the 2022 actuarial valuation.

In relation to administration, the Fund has undertaken a series of overseas indicator reports to ascertain that there aren't any pensioner or dependant members with accounts in Russia.

Any further implications of the conflict (impacting investment, funding, covenant and administration) will be considered as and when they arise by the relevant teams.

The Board **RESOLVED** to note the current position regarding the developments that could affect the administration of the fund.

## 10 PENSION FUND ADMINISTRATION

The Employer Services Manager introduced this report to the Board and highlighted the following areas.

### Workload & Performance

With Increasing volumes of work the Fund continues to operate below its desired target of >90% for most case types and the case-by-case breakdown demonstrates an overall general maintenance from the previous quarter. Generally, however, KPI benchmarking performance has declined over the past year.

A contributory factor relating to underperformance can be associated with the inclusion of the current backlog project and the processing of historic workload cases impacting KPI's.

The Backlog project has exceeded the original six-months allocated timeframe. The final cases are more complex requiring Senior Pensions Officer's sign off and cases waiting for outstanding information that will be dealt with outside the backlog project.

### McCloud Judgement

The Fund continues to work on collating/analysing data from employers in relation to implementing the remedy.

### Resource Recruitment & Training

Recruitment and retention remain a key factor impacting business operations. Employer Services currently have 4 FTE vacancies and member services teams have 3 FTE vacancies in addition the Technical & Compliance post remaining unfilled. The administration is also carrying three maternity absences across the service at this time.

The Fund is currently engaging with a specialist recruitment agency to secure 4 technical posts on a temporary basis pending ongoing recruitment campaigns.

Recruitment continues to backfill vacant posts, maternity cover and secondment to projects and overstaffing is being considered at Assistant Pensions Officer level to mitigate the impact of further staff movement.

To mitigate operational workload some project work has already been outsourced. In particular; GMP reconciliation project and the address tracing project. Mercer consultants continue to provide Technical & Compliance advice and guidance.

Alison Wyatt asked what can be done in terms of McCloud and the data that is still outstanding from 2 of the main 4 Unitary Authorities.

The Employer Services Manager replied that in particular, one of the UA's does not yet have a workable solution for their data. She added that they have around 5,000 active members and have setup an internal project to attempt to complete this work by the deadline of 31<sup>st</sup> August 2022.

Steve Harman said that he believed that the issue should be escalated to the highest level within that Authority as it was putting the Fund in a difficult position.

The Employer Services Manager replied that Senior HR Officers and Financial Directors have been advised and they will look to go further if required.

The Chair said that the Board would support officers in their pursuit of this information.

The Employer Services Manager said that this matter would not affect the Annual Benefit Statements. She added that they were due to meet with that Authority within the next two weeks.

Steve Harman commented that he acknowledged that the Fund was not where it wanted to be in terms of performance, but said that this was in no way a criticism of officers who were continuing to work hard under pressure.

The Employer Services Manager replied that she believed that the Digital Strategy would ease a number of these issues. She added that the amount of monthly data received by the Fund is vast.

Alison Wyatt asked if it was known why there had been such an increase in cases recently.

The Employer Services Manager replied that membership was increasing slowly, but that it had been evidenced that there had been a 50% increase in leavers over the past two years.

The Pensions Manager added that there had also been a recent explosion of employers and that more short-term contracts were in effect, especially since the pandemic.

Helen Ball asked that with such a wide range of employers had any consideration been given to applying any additional charges so that this could be added to the budget of the Pension Fund.

The Pensions Manager replied that the long term aim of the admin strategy was to offer a consultancy service to employers where support from the Fund was needed and that this would be chargeable.

He advised the Board that they were seeking to procure a new AVC provider having served notice with current provider Aviva. He added that discussions are ongoing with Hymans Robertson regarding support in procuring a new provider.

He said that officers recognise that performance figures are not where the Fund would want to be with regard to KPIs and that APF do participate in national benchmarking with CIPFA. He added though that many schemes were not, with less than 20%, so access to comparable data was not easy.

Steve Harman said that he was an advocate of benchmarking and offered the support of the Corporate Team to the Fund to help where possible.

The Chair suggested using information that is available from submission of the SF3 form by Local Authorities for cost comparison and the Fund Annual Reports (all held on the SAB website) for service delivery KPI comparison.

The Pensions Manager said that they could use SF3 to compare costs data and would also carry on with CIPFA in terms of performance.

The Board **RESOLVED** to note the Fund performance for the three months to 31st March 2022.

## 11 ANNUAL REVIEW OF COMMITTEE & PENSION BOARD GOVERNANCE ARRANGEMENTS

The Pensions Manager introduced this report to the Board and highlighted the following areas.

### Pension Board

The annual review of governance arrangements for the Pension Board have been undertaken and a summary of the findings are set out in Appendix 1.

### Avon Pension Fund Committee

Annually in June the Avon Pension Fund Committee review its governance arrangements.

Following recommendations from the SAB's Good Governance Review and gap analysis conducted by Hymans Robertson (see Appendix 11) a draft Conflicts of interest policy (appendix 7), Training Strategy Policy (Appendix 8), Representation Policy (Appendix 9 which will be an appendix to the Governance Compliance Statement) and a decision making matrix (Appendix 10) have been drafted for the Committee's approval in June.

The Service Director for Commercial and Governance explained that this report was due to be discussed by the Avon Pension Fund Committee later in the month. He added that it was important to focus on the good Governance and the Gap Analysis.

Helen Ball suggested that the Board focuses on the two areas outlined for improvement, Conflict of Interest and Representation and reviews the other areas on a less frequent basis.

The Chair commented that to have obtained full compliance for the Administration Strategy was a solid foundation to build upon.

The Service Director for Commercial and Governance said that the Conflicts of Interest Policy (Appendix 7), Training Strategy Policy (Appendix 8), Representation Policy (Appendix 9) had been drafted to address those gaps that have been identified.

The Board **RESOLVED** to note and approve the report and its appendices ahead of the upcoming meeting of the Avon Pension Fund Committee.

## 12 RISK REGISTER UPDATE

The Pensions Manager introduced this report to the Board and highlighted the following areas.

The Risk Register is reviewed every quarter by the pension management team. All risks with a review date are re-evaluated using the evaluation form and updates agreed and made to the risk register. Any new risks identified or changes to any other risks are also considered and the necessary amendments made.

He stated that a new risk had recently been added as follows:

Stagflation - Risk of stagflation (persistently high inflation and low growth/recession) is rising globally but especially in the UK. This could have material negative impact on the Funding Level especially if prolonged. Stagflation over next 3 years could see significant rises in employer contributions (assuming asset values do not keep pace with inflation) at the 2025 valuation. Funding and investment strategies are continuously monitored to mitigate risk.

He said that this risk has been given a score of 12.

Steve Harman asked if the data returns from the two Unitary Authorities mentioned earlier in the meeting should be covered in the Register.

The Pensions Manager replied that this would be covered under McCloud (R63).

Tony Whitlock asked how many vacancies there were currently within the team and acknowledged that recruitment was a real issue for Local Government.

The Pensions Manager replied that it was around 8 or 9 and said that the current turnover of staff is also quite high.

The Chair asked if the Fund took part in the recent pay consultation.

The Pensions Manager replied that they had and that it had been identified that they were in the lower pay quartile. He added that a lot of Funds were suffering the same fate and that home working was a factor that was allowing people to take up better paid roles without necessarily moving to the locality of the employer.

He added that as part of the Transformation Plan they were carrying out a review career grades and pay.

Alison Wyatt asked if it was considered that cyber risk was covered enough in the Risk Register.

The Service Director for Commercial and Governance replied that this is a key risk to all organisations currently. He advised that a review of the Fund's current status had recently been carried out against the Cyber Essentials standards and that this was an accreditation that the Council were working towards achieving.

He said that following this they will be looking at what next steps might be required, including investment in additional officers or processes. He added that he had seen a draft report on this issue which was positive in terms of the Fund's current ability to manage cyber risk and that it was likely that a report on this matter would come back to a future meeting of the Board.

The Chair added that a workshop on cyber risk was also due to be held for the Board in the coming months.

The Board **RESOLVED** to note the report.

### **13 PENSION BOARD WORKPLAN & TRAINING PLAN**

The Pensions Manager introduced this report to the Board and highlighted the following areas.

He reminded members that there was to be workshop on 17<sup>th</sup> June relating to the Funding Strategy Review & Valuation.

He advised that Members were asked to complete module 1, Introduction to the LGPS, module 2, LGPS Governance & Regulators and module 3, Administration & Fund Management by the June meeting and that the full timetable for completion of all modules was contained in Appendix 2.

The Chair commented that where required further workshops will be scheduled and said that he felt that the training from Hymans was excellent.

Helen Ball said that she felt that the tests involved in the training were straightforward enough, but that the content itself implied that a level of finance knowledge was already required and therefore overall completing a module can be hard work.

She added that the module on Administration & Fund Management showed just how constantly it changes and how complex it is.

The Pensions Manager replied that it is not comparable to when he started his career as the intensity of the work involved now has increased so much.

The Board **RESOLVED** to:

- i) Note the workplan & training plan for 2022/23
- ii) Note the dates for future meetings.

The meeting ended at 11.42 am

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**