

## **BATH AND NORTH EAST SOMERSET**

### **PENSION BOARD**

Thursday, 8th December, 2022

**PRESENT:-** Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative), David Yorath (Member Representative), Stuart Anstead (Employer Representative) and Alison Wyatt (Member Representative)

**Officers:** Nick Dixon (Head of Pensions), Jeff Wring (Director, One West), Liz Woodyard (Group Manager for Funding, Investment & Risk), Geoff Cleak (Pensions Manager), Tariq Rahman (Audit Manager) and Carolyn Morgan (Governance and Risk Advisor)

#### **29 EMERGENCY EVACUATION PROCEDURE**

The Chair welcomed everyone to the meeting and asked the Democratic Services Officer to read out the Emergency Evacuation Procedure.

#### **30 APOLOGIES FOR ABSENCE**

Councillor Paul Crossley and Tony Whitlock had sent their apologies to the Board.

#### **31 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

#### **33 ITEMS FROM THE PUBLIC**

There were none.

#### **34 ITEMS FROM MEMBERS**

There were none.

#### **35 MINUTES OF PREVIOUS MEETING: 4TH OCTOBER 2022**

The Board approved the minutes of the previous meeting and they were duly signed by the Chair.

## 36 EXTERNAL AUDIT - UPDATE

Beth Bowers, Senior Manager, Grant Thornton introduced this item to the Board. She explained that the pension fund's report was in its final draft stage, subject to a small piece of procedural work relating to the Council's audit and the value of their infrastructure assets. She added that a Statutory Instrument was currently progressing through Parliament and that a decision was due to be made by the end of the year.

She referred the Board to the four significant risks identified in the Audit Plan.

### Management override of controls

Our testing of estimates, judgements and journals has not identified any evidence of management override of controls.

### Improper revenue recognition (rebutted)

Our audit work has not identified any issues in respect of improper revenue recognition.

### Valuation of Level 3 investments

Our audit work has not identified any significant issues in relation to this risk.

### Expenditure recorded includes fraudulent transactions (rebutted)

Our audit work has not identified any issues in respect of improper expenditure recognition.

She highlighted the following further areas from the report.

### Level 3 Investments: £1,312m

Our findings identified some estimation differences due to timing issues. The total aggregate difference identified was a potential overstatement of the estimates by £8.6m.

### Level 2 Investments: £4,217m

Similarly to level 3, we identified some estimation differences. Most of these were not above our trivial threshold. The total aggregate difference identified was a potential understatement of the estimates by £9.3m.

### Independence and ethics

Audit of Brunel Pension Partnership Limited (BPP) – We do not consider the audit of BPP as a threat to our independence as Avon Pension Fund cannot exercise control over BPP.

### Fees

The Fund disclosed Audit Fees relating to 2021/22 of £41,655 in its statements. Our proposed fees for 2021/22 are £53,655. The difference of £12,000 relates to the proposed additional fees included in the report.

The Fund disclosed Audit Related Fees relating to 2021/22 of £7,000 in its statements. Our proposed fees for 2021/22 are £12,000. The difference of £5,000 relates to the proposed additional fees included in the report.

The proposed fees for our IAS 19 letters of assurance to admitted body auditors has increased by £5,000 since planning. This reflects the additional work undertaken this year to enable us as a Pension Fund auditor to respond to the increased number of areas of assurance sought by the admitted body auditors. We anticipate these higher fees to continue going forward.

The Chair asked if any changes were planned for the CIPFA framework.

Beth Bowers replied that no significant changes to the code for Funds was planned for 2022/23.

Steve Harman commented that whilst understanding the majority of the report that it was a complicated report to navigate. He asked if there was anything that could be done to enable members of the Fund to understand it easier / have clarity.

Beth Bowers agreed that it was a technical report, but said that comfort should be assured in their findings.

The Chair asked if the teams involved in the audit at Grant Thornton and the Council were likely to change within the coming year.

Beth Bowers replied that a contract had been agreed for 2023/24 and that they were in the process of arranging the portfolios for 2022/23. She said that it was likely that either herself or Peter Barber would retain working with the Avon Pension Fund.

She added that for the audit in 2023/24 they would look to ensure that not all of the previous key auditors would rotate away from working on the Avon Pension Fund.

The Group Manager for Funding, Investment & Risk said that she was not aware of any forthcoming changes within the Council team and added that the continuity offered from Grant Thornton really does help.

The Director, One West asked if context could be given to the 150% increase in fees.

Beth Bowers replied that a small increase was due for 2022/23 and then as part of the new contract for 2023/24 they would increase further. She said that the increase would give more certainty of actual fees and reduce the amount of unknown factors. She added that standards of auditing have increased vastly along with the time they take to complete, in 2018/19 it was three weeks and this current one had been two months.

David Yorath commented that the report contained a lot of information and that he would welcome a summary of key facts if possible in the future.

The Head of Pensions said that if it is possible they would try to summarise the key findings in some way and would work with Grant Thornton on this if necessary.

Alison Wyatt asked if Grant Thornton had been happy with the management responses received.

Beth Bowers replied that all the findings had been accepted and that they had received very detailed responses. She thanked the Finance & Systems Manager (Pensions) and others within the team for all their work.

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

## 37 BRUNEL UPDATE

The Group Manager for Funding, Investment & Risk gave a presentation to the Board on this item, a summary is set out below.

### Listed Market portfolios

- Difficult market environment for the ESG style across Brunel portfolios.
- However trend through the year has improved as energy shock, inflation and recession largely priced into markets.
- Managers are maintaining their philosophy on investing.

### Private Markets

- Capital committed to the infrastructure and private debt portfolios is being invested and is on track.
- Property asset values have been most affected by rising interest rates and expect this to negatively affect returns over next few quarters.

### Climate Policy and 2022 Stocktake

- Brunel and clients completed review of current policy;
- Brunel drafting their revised policy due 1Q23

### Managing Climate Risk – current Fund targets:

- To implement a <2°C aligned portfolio by committing to net zero emissions by 2050, or earlier. Now widely accepted policy will need to aim for 1.5°C to achieve net zero by 2050. Will require significant government, industry policy shifts.
- To reduce the carbon intensity of the equity portfolio over time with the aim of being 30% less carbon intensive than the benchmark by 2022. This was achieved in 2020 and the inclusion of carbon intensive targets will be reviewed.

The strategic investment review will consider whether any targets be accelerated.

### Liability Driven Investing update

- What happened?
  - UK government bond yields rose towards 5% over very short period.
- What was impact on our LDI strategy?
  - In the volatility, hedging ‘triggers’ were breached meaning the level of assets hedged increased. Trigger framework suspended given highly volatile moves in markets.
  - This meant we had to put up more ‘collateral’ to support our position and this was sourced from equities.
  - Asset allocation did not change, as equity assets were switched from equities held through Brunel to passive equity funds held within the QIF providing the collateral.
  
- What is the current position?
  - The fund has greater hedging in place; 40% of the LDI portfolio assets are now hedged against interest rates and inflation; positive for stability of employer contributions.
  - Collateral held in the portfolio has increased – though this does not impact APF’s risk profile or future growth prospects.
  - Governance & decision-making process worked well in stress conditions.

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

## **38 SUMMARY OF LIQUIDITY PROFILE**

The Group Manager for Funding, Investment & Risk gave a presentation to the Board on this item, a summary is set out below.

### Cashflow and Liquidity analysis

As Fund membership profile matures, cashflow becomes more important

- Need to avoid being a seller of assets in falling markets to fund pensions
- Income generating investments become more appropriate

Input when agreeing strategic allocation to ‘illiquid’ assets

- Current allocation to illiquid assets is 32.5%
- Max. increase is 5% - adequate liquidity to meet cash calls
- Recommend maintain a 5% ‘buffer’

Liquidity analysis determines plan for managing cash requirements

- Collateral plan for risk management strategies
- Liquid cash strategy holds highly liquid assets to meet private market calls

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

## 39 ANNUAL REPORT & SUMMARY OF ACCOUNTS

The Group Manager for Funding, Investment & Risk gave a presentation to the Board on this item, a summary is set out below.

### Avon Pension Fund – Key facts and figures (as at 31<sup>st</sup> March 2022)

- Fund Membership:
  - 130,143 – Fund Members
  - 39,559 – Members paying contributions
  - 43,396 – No longer paying in
  - 36,951 – Pensioners receiving a pension
  - 10,237 – Undecided leavers
  
- Fund Value:
  - £5.82 billion - a rise of £513 million on the previous year.
  
- Funding level:
  - As at March 2022 the funding level was estimated at 97% with a deficit of £198 million.

Admin costs of £2.7m were 18% below budget.

Governance costs of £1.9m were 13% below budget.

Annual Investment fees were £19m.

A smaller member focussed report is planned for publication next year.

The Chair asked the Head of Pensions if he would like to address the Board and give his initial thoughts on the status of the Fund having joined the organisation only recently.

The Head of Pensions stated that he was broadly positive in terms of the status of the Fund and said that it was well managed. He added that investment has been robust, whilst being intelligently managed in respect of the fund's overarching risk/return profile and its alignment with the liability profile.

He said that the culture, teamwork ethic and collaborative nature of the officers was very positive.

He stated that a challenge remains around the recruitment and retention of staff and that there were some backlogs in meeting members' service needs. He added that work relating to digital upgrades, the McCloud remedy and the Pension Dashboard were also challenges for the service.

He informed the Board that a review of delivery plans was ongoing.

The Chair thanked him for his comments and the Group Manager for Funding, Investment & Risk for her presentations.

## 40 INTERNAL AUDIT UPDATE

The Audit Manager introduced the report to the Board. He explained that the last report on this subject to the Pension Board was on 21st September 2021.

He stated that since the last Internal Audit update report was presented they have issued three reports, with the following opinions.

- Pensions Payroll – Substantial Assurance
- COP14, Maintaining Contributions & Member Information – Substantial Assurance
- APF Cyber Essentials – N/A Briefing Paper

He informed the Board that in terms of the two 'Assurance Reports' (Pensions Payroll & COP14) there weren't any significant weaknesses reported and a 'Substantial Assurance' rating was assigned.

The Chair commented that he felt that it was a great result for both reports to achieve that rating.

Stuart Anstead asked if there were any issues raised regarding the timing of payments in relation to joining / leaving the Fund.

The Audit Manager replied that no issues had been raised.

The Pensions Manager added that the majority of cases for retirements are resolved timely. He said that there was a small backlog caused by AVC issues and missing data from employer.

He added that there had been an increase in retirements recently and that they were working with employers to improve the receipt of information / data.

The Board **RESOLVED** to note the report and outcomes of the Internal Audit work carried out on the Avon Pension Fund.

## 41 INTERNAL AUDIT APF CYBER ESSENTIALS REVIEW

The Board, having been satisfied that the public interest would be better served by not disclosing relevant information, **PROPOSES**, in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

## 42 BREACHES REPORT

The Governance & Risk Advisor introduced the report to the Board. She informed them that a summary of regulatory breaches recorded for the period October 2021 to September 2022 could be found in Appendix 1 and stated that there were no material breaches recorded in this period.

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

## 43 STATUTORY REPORTING AND YEAR END

The Pensions Manager introduced the report to the Board and highlighted the following areas from within it.

### Year End Exercise

In preparation the Fund must undertake an annual exercise to reconcile member data supplied by employers at each 31st March year end. There are 454 active employers of which 272 provide member data digitally to the Fund on a monthly basis covering 86% of active scheme membership (35,139 members). The remaining employers continue to provide data annually.

Where the employer annually submits a data return it invariably will require further scrutiny and employer engagement to reconcile. The Fund is aiming to digitalise all employer returns as part of its published Administration Strategy.

### Annual Benefit Statements

Officers completed work to reconcile data returns ahead of the statutory ABS exercise. Summarily, 93.53% of active member statements were issued ahead of the 31st August deadline.

### Pensions Savings Statements

For the 2021/22 tax year the Fund engaged with Hyman's Robertson to provide professional consultancy support, guidance and officer training. Detailed analysis and work undertaken by officers to complete the annual process to assess member savings has been completed. All statements were issued ahead of the statutory deadline of 6th October.

### Accounting for Tax – Event Reporting

As a pension scheme administrator of a registered pension scheme the Fund must send pension scheme reports and pay tax charges to HMRC. Fund officers registered with HMRC have responsibility to submit Accounting for Tax (AFT) returns using the new Managing pensions scheme online service.

### The Pensions Regulator - Annual Scheme Return

Public service schemes have a legal obligation to supply the Pensions Regulator annually with certain information via a scheme return. The information required



includes scheme details, employer details and governance details. The annual scheme return notice for 2021/2022 was received from TPR on 23<sup>rd</sup> November with a request to complete by 2nd January 2023. Officers are currently working through the return and a copy will be included at the next Pension Board meeting.

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

#### 44 UPDATE ON LEGISLATION

The Pensions Manager introduced the report to the Board and highlighted the following areas from within it.

##### McCloud Judgment

It is expected that the expected timing for guidance and regulations will be delayed (relative to the earlier timetable issued by DLUHC). It has been confirmed that certain Teachers will also be eligible for LGPS membership due to the McCloud remedy. The inclusion of certain Teachers in relation to the LGPS remedy will also add to the administrative burden and further guidance awaited on how to deal with such cases.

##### Pension Dashboard

The main development over recent months was the laying of a draft of The Pensions Dashboard Regulations 2022 before each House of Parliament by DWP. These were debated on 15th November by MPs and Peers and approved.

##### SCAPE Discount Rate

Response to June 2021 consultation expected in coming weeks, including potential revision to SCAPE discount rate.

##### CARE Revaluation Date

Consideration currently being given to amending the revaluation date to 6 April from 1 April due to increasing number of members potentially subject to annual allowance charges. Nothing definitive published yet.

##### Staff

Technical Compliance Officer now in post.

David Yorath asked if the CARE date could only be moved once.

The Pensions Manager replied that it does not specify.

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

## 45 RISK MANAGEMENT UPDATE - RISK REGISTER

The Governance & Risk Advisor introduced the report to the Board. She explained that the Fund has reviewed its risk management process and documented it in a new risk management policy. She added that the policy sets out the Fund's approach to risk, process for review and update of the risk register and also sets out the roles and responsibilities of all those involved in the management of risk within the Fund including the role of the Pension Board and Pension Committee.

She stated that the new risk register was attached as Appendix 1 and it identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. She added that it sets out the mitigating actions.

She informed them that the risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter. All risks are also reviewed when there has been a material change to the risk.

She said that the risk register sets out how risks are linked to the relevant Fund strategy documents and how they are reported to Pension Committee and Pension Board.

Alison Wyatt asked if they were now confident that all issues raised were now covered within the risk register.

The Governance & Risk Advisor replied that she believed they were, with the only exception being the audit work that was ongoing regarding Cyber Essentials compliance.

The Head of Pensions added that from a management perspective this is seen as a live document that will be reviewed regularly and updated.

Stuart Anstead asked if the Board could be given an indication of what the scoring mechanism is and whether the score is residual, post mitigation.

The Governance & Risk Advisor replied that the highest possible risk score was 25 and that there were 5 levels of impact and 5 levels of likelihood.

The Director, One West added that he believed the scores shown were residual.

Alison Wyatt commented that it would be helpful to show pre and post mitigation scores.

The Director, One West replied that they had sought to focus on the most significant risks and would take the comments made on board in terms of future reports.

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

**46 PENSION BOARD WORKPLAN & TRAINING PLAN**

The Governance & Risk Advisor introduced the item to the Board. She stated that all training had been completed for this current cycle and that a short planning session was due to take place in January for the Board to discuss new meeting dates, workplan items and training / workshop needs.

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

The meeting ended at 11.57 am

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**