

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Tuesday, 23rd May, 2023

Present:- Nick Weaver (Chair), Helen Ball, Steve Harman and Alison Wyatt

Also in attendance: Nick Dixon (Head of Pensions), Jeff Wring (Director - One West), Liz Woodyard (Group Manager for Funding, Investment & Risk), Anna Capp (Member Services Manager), Claire Newbery (Pensions Operations Manager), Carolyn Morgan (Governance and Risk Advisor), Charlotte Curtis (Governance & Risk Officer) and Yolonda Dean (Employer Services Manager)

47 EMERGENCY EVACUATION PROCEDURE

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

48 APOLOGIES FOR ABSENCE

Tony Whitlock and Stuart Anstead had sent their apologies to the Board.

49 DECLARATIONS OF INTEREST

There were none.

50 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

51 ITEMS FROM THE PUBLIC

There were none.

52 ITEMS FROM MEMBERS

There were none.

53 MINUTES OF PREVIOUS MEETING: 8TH DECEMBER 2022

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

54 PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT

The Pensions Operations Manager introduced this item to the Board and gave them a presentation. A copy of the presentation will be attached as an online appendix to these minutes and a summary is set out below.

She informed the Board that it had been a tough few months for the team as the Payroll Leader had resigned at the end of March. She said that this required some immediate decisions to be taken which included moving Team Leaders from Member Services across to Payroll.

She explained that seven payrolls take place every month alongside reporting to HMRC, which had all been completed properly and on time in both April and May. She said that a new Team Leader has been recruited and is currently in training. She wished to give thanks to the Member Services Manager and the team for all their work.

The Member Services Manager said that a lot of fast track training was given and that all payments had been made on time.

Steve Harman asked if the new Team Leader could be approached to stay on a permanent basis.

The Pensions Operations Manager replied that they had already been appointed on a permanent basis.

The Chair commented that he felt that this had been a very impressive achievement from everyone involved.

The Head of Pensions addressed the Board.

Current state of APF organisation

Service quality is below SLAs agreed with the Pensions Committee:

- 75% of members' service requests are completed within SLAs
- c.65% was achieved before the office return in Q4 2022 – since when further improvement has stalled

Service quality is limited by 4 key issues:

- high vacancy rate of c.16%
- elevated work load due to increased i-Connect data combined with a complex leaver-joiner process
- performance MI is insufficiently embedded in operational management
- there is limited digitisation with heavy manual processes

We have the ability to address all the above issues.

Improvement objectives - 2025 – what good looks like

Service

- Meet service standards set by CIPFA, plus TPR requirements
- Achieve SLAs agreed with APF Pensions Committee – 90% in 2025
- Easy digital experience – with substantial uptake of My Pension Online2

- All employer data exchanged electronically

Foundations

- Deliver all regulatory changes which benefit members, e.g. - McCloud, Dashboard, GMP
- Transformed digital platforms – for members, employers, APF staff
- MI drives insight and is embedded into operational decisions

People

- Pay rates are competitive for retention & recruitment of required talent
- Vacancy rate within normalised range of 4-8% within 12 months
- New operational structure embedded by year end
- Engaged workforce: keen to learn, keen to serve members

Steve Harman asked where the figure of achieving 90% of our targets comes from and why is it not 100%.

The Pensions Operations Manager replied that the figure was a legacy issue and had always been in place prior to her commencing her role. She added that in her opinion 100% would not truly ever be achievable.

The Head of Pensions added that he felt that 90% was achievable within 2.5 years and that he would be willing to evaluate the position after that time. He then returned to the presentation.

Key levers to improve people environment

- Improve salaries
 - We asked Aon to undertake an independent review of APF salaries comparing all roles vs similar public & private sector organisations. Aon recommended salary increases linked to roles – based on the external comparisons.
 - B&NES HR has approved the principle and aggregate of proposed salary increments. We now move into detailed implementation – with approval of each individual case. We expect salary changes to take effect from the July 2023 payroll.
- Fill vacant positions
 - Sorting Payroll - We have already hired the team leader – who has extensive private sector experience. We need to hire 1 Senior Officer & 1 Officer.
 - Hiring people with experience who can learn quickly and make a difference to service delivery, e.g. Officers & Seniors serving members and employers / Technical Leads.
 - Transformation - We need to hire a Change Programme leader who can drive digital transformation. We also need project leads who can work with the wider APF team.

Helen Ball asked if any consideration had been given to awarding staff bonuses or honorariums.

The Pensions Operations Manager replied that some of these measures had already been put in place.

- Leadership & communication
 - Regular leadership briefings.
 - People understand the APF strategy, how their team fits and how their own role contributes.
 - Input into APF strategy, e.g. climate change & net zero / change priorities.
- Organisation, Training, Development, and Career Progressions
 - New organisation structure to support digital future in place – December 2023.
 - Career development - Training plans / career families for progression.
 - Get the basics right - Clear personal objectives / 121s with line manager / team discussions.

Payroll

- Objectives
 - Fully resourced
 - Robust processes
 - MI on workflow – full transparency
- Actions
 - Recruit SPO & PO June - August 23
 - New TL to take over payroll running - Autumn 23
 - Review & create new processes - December 23
 - Create workflow to manage work - January 24

Leaver process

- Objectives
 - No backlogs > 60 days
 - Meet TPR & regulatory requirements
 - Meet SLA targets set in Admin Strategy (CIPFA) agreed by Pensions Committee
- Actions
 - Consider bulk digital processing to clear backlogs
 - Formation of Leaver Team
 - Streamline & digitalise 3 key processes
 - Leaver
 - Starter
 - Post changes
 - Support & Development - Employer training / People training & upskilling

Management Information (MI)

- Objectives
 - Transparency of work levels
 - Reporting to support pro-active achievement of KPIs and SLAs
 - Agile reporting, weekly, monthly
 - Team productivity
- Actions
 - Business Analyst in place to review reporting needs and develop new reports
 - Working with other funds to understand reporting capability
 - Review of workflows to in-bed new reporting with new processes and responsibilities
 - Create, design, test and deliver new reports

Day-to-day and backlogs

- Objectives
 - Fully resourced & trained team
 - No backlogs > 60 days
 - Self service & digital processes for members & employers
 - Satisfied members
 - Engaged workforce
- Actions
 - Regular weekly/monthly reviews of work – Agile working to focus on changing work loads
 - Operational focus on 2 key areas – Retirements / Death
 - Automate & digitalise processes and consider applying to backlogs
 - Website developments for Employers & Members (self service)

Alison Wyatt asked if there was any mileage in consolidating any work with other Funds.

The Pensions Operations Manager replied that they do meet quarterly with other Funds, but inevitably they will all have a different type of focus.

The Head of Pensions added that he was aware some collaborations are taking place, but felt that the Fund now needs to focus on solving the problems that have now been identified.

Helen Ball asked if the Board could be updated regularly on the Improvement Plan and said that she didn't feel the need to know if the KPIs haven't really changed.

The Head of Pensions and Steve Harman agreed with this proposal.

Change Programme

- 8 projects

- Objectives for each project
- Criteria for prioritising
- Clear delivery plan
- Necessary projects absorb common resources – limiting capacity for transformation.
- Project prioritisation applied

Steve Harman asked why 'Rebrand' had been given a priority of 1.

The Communications and Marketing Manager replied that the current logo of the Fund was difficult to process digitally.

The Head of Pensions added that, as well as the logo change, the rebrand was about changing language and tone of voice used in communication to make understanding simpler for members.

The Pensions Operations Manager added that it was a priority as the website would not be supported from the end of October 2023.

Helen Ball asked if there were any external complications from the KPIs not being achieved.

The Pensions Operations Manager replied that they were not normally any longer than 5 days over their targets and had not felt the need to self-report themselves to the Pensions Regulator or been reported by them. She added that in the circumstances the year end had gone well overall and wanted to take this opportunity to provide a clear and honest account of where we are.

The Board **RESOLVED** to note:

- i) The presentation that had been given
- ii) The Fund performance for the three months to 31 March 2023.

55 TECHNICAL & COMPLIANCE UPDATE

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

Pension Taxation

The Spring Budget in March saw a number of changes to the way pensions will be taxed, primarily an increase to the annual allowance, and removal of lifetime allowance charges from 6 April 2023 (and abolishment of the lifetime allowance from 2024/25 onwards).

Whilst the changes to the annual and lifetime allowance are favourable to members, the changes have led to administrative processes and member communications to be updated and may lead to an increasing number of queries in the short-term.

CARE Revaluation

On 9 March 2023 DLUHC published its response to the consultation setting out proposals to change the annual revaluation date for the LGPS from 1 April to 6 April. The response confirmed that the change would take place and on the same day the LGPS (Amendment) Regulations 2023 were laid (coming into effect on 31 March 2023).

Whilst the changes made will have reduced the number of members impacted by the 2022/23 annual allowance charge, the timing of the change had an impact on the administration team given software systems weren't updated prior to the change taking place (thus resulting in a greater level of manual calculations). Communications are also being updated and the team has also dealt with an increased number of queries from members.

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

56 RISK MANAGEMENT UPDATE - RISK REGISTER

The Governance & Risk Advisor introduced the report to the Board. She explained that following feedback from Pensions Committee and Pension Board members, pre-mitigation scores have also been added to the risk register. She added that the risk register identifies risks which could have a material impact on the Avon Pension Fund in terms of service, value, reputation, or compliance.

She identified to the Board the most current critical risks:

NR01 – 'Ability to deliver admin service to members and employers within agreed standards' The current factors impacting this risk are set out in item 8 – Pension Fund Administration report.

NR12 – 'Failure to achieve decarbonisation targets in the required timescales in accordance with climate change priorities' Government climate policies not moving fast enough or sufficiently enforced.

NR05 – Failure to manage personal data in line with data protection regulations. Following an increase in the number of data breaches caused by enveloping errors and on the advice of Information Governance and Internal Audit the decision has been taken to stop all bulk printing and enveloping while the process is reviewed. Consultation with Information Governance & Internal Audit is also taking place to improve the process for providing members with activation keys for My Pension Online, following two data breaches.

Councillor Paul Crossley asked if officers were comfortable with the risks that have been reduced.

The Governance & Risk Advisor replied that they were and that mitigation was in place regarding them.

Councillor Crossley stated that he believed that the Fund needs to be prepared for challenges in terms of its decarbonisation targets and climate change priorities.

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

57 INVESTMENT AND FUNDING STRATEGY UPDATE

The Group Manager for Funding, Investments & Risk introduced the report to the Board and highlighted the following points from it.

Actuarial Valuation 2022

The average deficit recovery for the Fund has reduced from 13 years in 2019 to 12 years in 2022 which is line with the medium-term target. The funding level has also improved from 94% in 2019 to 96% in 2022.

The discount rate used to value the past service liability is based on the expected return on the assets relative to CPI. At 31 March 2019 the equivalent discount rate was CPI +1.75% p.a. This was reduced to CPI +1.50% in 2022 due to a fall in investment return expectations. This compares to a best estimate for investment returns of CPI+2.5% which shows the degree of prudence built into the assumptions.

Some smaller employers have had to leave the fund as their final member leaves. Still have around 450 employers and the valuation remains a resource intensive process.

Revised Investment Strategy

The 2022 strategic investment review was undertaken at a challenging time for investment markets. Therefore, the strategic focus re-examined the overall level of return and risk, the role of Risk Management Strategies in the overall policy framework and our net zero/climate targets.

The revised strategic allocation is based on the following:

- a) Risk Appetite: The Committee concluded that to maintain as stable as possible employer contributions, increasing returns and therefore risk was not warranted given the funding objective and funding level.
- b) Preferred strategic benchmark: The current strategic benchmark allocations between equities, liquid and illiquid growth assets, and fixed income achieves the appropriate balance of risk and return to provide stability of contributions.
- c) Diversification: The liquidity analysis concluded that the Fund was nearing its maximum allocation to illiquid assets. Therefore, alternative allocations between equities and other liquid growth assets did not improve the risk and return expectations sufficiently to warrant changing allocations.

The main asset allocation change is the initial target allocation of 3% to Local, Social Impact assets. This would be funded from the 32.5% already held in illiquid assets. The focus of the portfolio will be the South West which is a sufficiently local regional

footprint as restricting to the Avon area could be too narrow to have sufficient impact through a diversified portfolio. National opportunities would also be considered to provide greater flexibility to meet the investment objectives.

The Investment Panel will review the Hedging Strategy in July 2023 and the Fund's climate targets are due to be reviewed during September / October 2023 following an engagement exercise with stakeholders.

Steve Harman commented that it was positive to see the funding level had risen to 96% and asked how that compared with other Funds.

The Group Manager for Funding, Investments & Risk replied that historically the Fund would be placed around midway in comparison with others and that she felt this was probably still the case. She added that she was aware that some Funds were achieving funding levels of 110% - 115%, but would be asking them what they were doing to lock in their funding. She said that realistically the Fund would only want to be targeting a 100% funding level.

The Chair asked if the Fund was coping in terms of having enough cash available within it.

The Group Manager for Funding, Investments & Risk replied that the Fund was in a good position in this regard currently as all pre-payments had just come in. She added that annual cash management was becoming more important as they were not always in control of specific draw downs for private market portfolios.

Helen Ball asked what was hoped to be achieved through the Local, Social Impact investing.

The Group Manager for Funding, Investments & Risk replied that they were seeking to achieve an overall positive return for the Fund. She said, for example, that investing could take place in Housing, Climate Solutions and Renewables (Infrastructure). She added that investment would be carried out at arm's length through external managers and that they would report back to the Board on progress in due course.

The Board **RESOLVED** to note:

- i) The outcome of the actuarial valuation
- ii) The revised investment strategy.

58 PENSION BOARD - TRAINING AND WORK PLAN UPDATE

The Governance & Risk Advisor introduced the report to the Board. She explained that a workshop had been held in March 2023 to look at the Administration Strategy & Service Plan update (including KPIs). She added that officers would look to meet with Board members informally or through workshops in between their scheduled meetings.

She informed members that the SAB's Good Governance Review is expected to include additional knowledge and skills requirements for Committee, Pension Board

and Officers. She added that Hymans Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).

She stated that a second version of the Learning Academy will launch in July 2023 and that the training was split into a number of modules covering the CIPFA Knowledge & Skills Framework.

Councillor Paul Crossley asked if the relaunch would result in additional charges to the Fund.

The Governance & Risk Advisor replied that it would not as they pay an annual charge for the licence. She added that currently Board members were asked to refresh their training on a yearly basis and that Committee members were asked to refresh their training every three years.

The Head of Pensions added that any new Committee member would be asked to complete the training within a year and then refresh every three years.

Councillor Crossley stated that he wanted to make the training compulsory for all new Councillors on the Committee.

The Board **RESOLVED** to:

- i) Note the workplan & training plan for 2023/24
- ii) Note the dates for future meetings.

The meeting ended at 4.03 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services