

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 7th December, 2023

Present:- Nick Weaver (Chair), Helen Ball, Steve Harman, Tony Whitlock (via Teams), Stuart Anstead (via Teams) 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), Nicky Russell (Technical & Compliance Advisor), Claire Moon (Digital Services Manager), Tariq Rahman (Head of Audit & Assurance), Yolonda Dean (Employer Services Manager) and Charlotte Curtis (Governance & Risk Officer)

14 EMERGENCY EVACUATION PROCEDURE

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

15 APOLOGIES FOR ABSENCE

The Democratic Services Officer informed the Board that Tony Whitlock (Employer Representative) and Stuart Anstead (Employer Representative) would be joining the meeting via Teams on this occasion.

16 DECLARATIONS OF INTEREST

There were none.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

18 ITEMS FROM THE PUBLIC

There were none.

19 ITEMS FROM MEMBERS

There were none.

20 MINUTES OF PREVIOUS MEETING: 6TH SEPTEMBER 2023

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

21 BRUNEL / INVESTMENT UPDATE (VERBAL UPDATE)

The Group Manager for Funding, Investment & Risk addressed the Board and stated that performance had been difficult over the most recent quarter, in particular with regard to equity assets. She explained that this was due to the portfolios tilt towards ESG (Environmental, Social and Governance).

She added that Brunel were investing within the guidelines that have been agreed with the Fund and that the portfolios were reaching three years old.

Alison Wyatt asked how the investments are quantified if they are not performing as envisaged.

The Group Manager for Funding, Investment & Risk replied that the investments are behind their benchmarks, not achieving what we hoped for, but as expected given the current market. She added that it is better to assess performance over the longer term and can now that the portfolios are three years old.

The Head of Pensions added that they were seeing an underperformance from equities due to the current dominance from the 'Magnificent 7 stocks' (Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia and Tesla).

Nick Weaver asked why Brunel do not invest further in these significant stocks.

The Group Manager for Funding, Investment & Risk replied that these decisions are taken by individual managers and that the price of these stocks could be highly overvalued.

The Head of Pensions provided an example to the Board that since year-2000, Vodafone and Nokia have lost 75% and 90% of their value respectively.

The Board thanked the Group Manager for Funding, Investment & Risk for her update.

22 DEATH IN SERVICE POLICY

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

- One risk for employers is the potential rise in liabilities when an active member dies, as their beneficiary receives a lump sum and partner's pension earlier than they ordinarily would. Although the actuary includes an allowance for 'strain' costs due to Death in Service (DIS) when setting future service contributions, actual strain or indeed saving, is determined by the member's profile and can be far greater (or less) than the allowance assumed by the Actuary.
- If there is a strain, it can significantly increase the liabilities and will feed through into the employer funding plan at the next valuation. For small employers the higher costs can be difficult to manage especially when they occur close to the employer's exit from the Fund.

- The feasible options to mitigate this risk are (i) captive insurance and (ii) 3rd party insurance. Maintaining the status quo will not manage the risk. The Actuary is proposing the Fund implements a captive insurance arrangement covering all employers within the Fund. The Fund already has a similar arrangement for managing ill-health retirement costs for smaller employers.
- The Pensions Committee approved implementing a DIS captive arrangement at its meeting in June 2023, subject to employer consultation which ended on 30 September 2023. No challenge to this proposal was received during the consultation.
- There are no extra direct costs as a result of this arrangement as currently any strain costs are picked up by employers at the subsequent valuation. The captive would aggregate the 'notional premiums' based on the actuarial assumptions and these premiums will be used to meet any future DIS strain costs.

Steve Harman asked what measures other Funds / Councils have in place.

The Group Manager for Funding, Investment & Risk replied that it was a mixture between no policy, captive insurance and 3rd party insurance.

Nick Weaver commented that from an administrative point of view it would be better not to have 3rd party insurance.

The Board **RESOLVED** to approve that a DIS captive insurance for employers in Avon Pension Fund be implemented.

23 ADMINISTRATION PERFORMANCE REPORT

The Pensions Operations Manager addressed the Board. She thanked those that took part in the online meeting yesterday to discuss the Pensions Increase issue and said it was hoped that a remedy would be available soon and that a follow up session was planned to take place in the early part of 2024.

Steve Harman asked if the remedy would come as a result of an additional cost to employers.

The Pensions Operations Manager replied that it would not. She added that they hoped to have confirmed data by the end of January.

The Head of Pensions commented that weekly project meetings are being held and that they welcomed the input and support from the Board.

Alison Wyatt said that she was disappointed that this issue had not been picked up by the Internal Audit Team.

The Head of Audit & Assurance replied that this area was last reviewed in 2018/19 and explained that the Internal Audit role was to verify that the Heywood system was

reporting the processes and that these were then subject to appropriate management review.

He stated that controls did exist, but they could not evidence whether they were working as intended. He said he believed that around 3% of the Fund have been inaccurately paid and that they were working with the Pensions Management Team as the matter progresses.

The Head of Pensions acknowledged that they were accountable for this scenario and would also take steps to guide the Internal Audit Team for when future reviews are due to take place. He added that they need to tighten their over-arching controls and would seek to bring a framework back to a future meeting.

The Pensions Operations Manager gave a presentation to the Board, a copy of which will be added as an online appendix to these minutes. A summary of the presentation is set out below.

Current Service state

- Aggregate performance is broadly stable – but insufficient.
- Cases completed are starting to exceed new cases coming in.
- Reduction of outstanding cases is starting to come down and supports our focus on backlog.

Steve Harman congratulated all staff involved for the improvements that have been made and welcomed the way in which this information has been presented.

Five root causes affecting the Service

1. People & Capacity
 - Vacancy rate: 10%
 - Pay
 - Officer experience
2. Processes
 - Duplication of process and checking
 - Volume of Leaver work
 - Payroll processes
3. Regulations
 - New McCloud regulations with effect from 1st October
 - Training received from Aon
 - Switched on in Live
 - 60,000 letters / 20,000 emails to be sent by the end of the year
 - New Fire Scheme Sergeant/McCloud regulations with effect from 1st October

Steve Harman said that he hoped that the correspondence with members would be in as Plain English as possible.

The Pensions Operations Manager replied that they have tried really hard to make the letter/email as clear as possible.

Helen Ball offered to review the letter/email and provide feedback.

The Pensions Operations Manager replied that the letter/email was about to be sent out imminently and therefore there was probably not time on this occasion, but thanked Helen for her offer.

The Head of Pensions commented that they were in the process of reviewing their starter letter and said that he would appreciate Helen's feedback on that.

4. Work Spikes & Projects
 - Fire Scheme exit (31/1/24)
 - ABS (Annual Benefit Statement) spike in work
 - Pensions Increase errors

5. Increased demand
 - ABS spike in emails / calls
 - Increase in case workload
 - Increase in retirements / deaths
 - Backlogs

Future road map

- Intention to attempt to meet KPI's by Q4 2024

The Chair thanked all officers involved for the work they continue to do and for the improvements made so far. He acknowledged that the Pensions Increase work would be a challenge and said that he would welcome the Board receiving a briefing prior to their next meeting.

The Board **RESOLVED** to note the service performance for the three months up to 30 September 2023.

24 LEGISLATION - REGULATORY UPDATE

The Technical & Compliance Advisor introduced the report to the Board and gave an update on the following matters.

She informed the Board that the LGA have announced that the proposed date for Public Sector Schemes to be connected to the Pensions Dashboard is by 30th September 2025. She added that this was not yet written policy as so is to be shared informally only.

She stated that the Chancellor had announced in his Autumn Budget Statement in November that there were to be some Investment Reforms.

She said that at the same time that the Government's response to the Local Government Pension Scheme (England and Wales) Investment Consultation was

published - "Next steps on investments" and the Fund were now assessing those implications.

The Group Manager for Funding, Investment & Risk added that they were awaiting further guidance with regard to Levelling Up and Private Equity, but did not feel that initially this would be a challenge for the Fund. She said she felt that Brunel were already pooling in the right way currently.

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

25 REVIEW OF INTERNAL & EXTERNAL AUDIT REPORTS

The Head of Audit & Assurance introduced this report to the Board and highlighted the following areas from within it.

He explained that since the last Internal Audit update report was presented to the Pension Board on 8th December 2022, 3 audit reports have been issued.

1. Pension Investment Reporting - This audit did not have any significant weaknesses reported and this resulted in the "Substantial" Assurance rating being assigned.
2. Cyber Security – APF Staff Training & Awareness – This audit was assigned a "Reasonable" Assurance rating.

The Avon Pension Fund (APF) workforce is employed by Bath & North East Somerset Council (B&NES). Accordingly, the B&NES cyber security e-learning and policy frameworks for information security and data protection apply to APF.

We have therefore reported our findings and made recommendations to the Council's Information Governance Manager and IT Service Delivery Manager, and they have agreed to implement all the Audit Review recommendations by the end of the 2023-24 financial year.

3. APF System Access Controls - It is adopted practice to report to Board if any Audit Reports are assigned a 'Limited Assurance' (Level 2) or 'No Assurance' (Level 1) rating. The 2022/23 Audit Review of APF System Access Controls was issued as a 'Final Audit Report' in February 2023 and a Level 2 'Limited Assurance' rating was assigned.

The majority of the recommendations in this report concerned i-Connect. A total of two 'high' and six 'medium' recommendations were made for i-Connect, placing it into the 'Weak' category. A further 'high' recommendation was made concerning employer data access for Employer Self Service (ESS), which was due to be replaced by i-Connect by the end of February 2023. A follow up review was completed in July 2023, and we are pleased to report that all recommendations have been implemented.

Comments relating to the Pension Investment Reporting Audit

In response to the weakness found within 'Reconciliation' the Group Manager for Funding, Investment & Risk replied by saying that this was mainly due to a timing issue and that steps have now been put in place to add the quarterly figure from the latest Brunel performance report.

The Governance & Risk Advisor added that the 'Member Training' weakness had been addressed and said that following the agreement at the Committee meeting in December 2022 it would be mandatory for all Committee members to study the Hymans modules within one year of becoming a Committee member and every three years after that.

The Chair on behalf of the Board noted the concern regarding the Committee training and was pleased to see that steps had been taken to improve this aspect.

Helen Ball referred to the Cyber Security Training report and stated that she was concerned to read that 'Users do not feel personally invested in cyber security and are less likely to adopt good security behaviours'.

The Governance & Risk Advisor replied that the auditor had stated this was a risk, rather than there being any evidence that users felt this way.

The Head of Audit & Assurance added that staff training was essential to the security of the Fund. He explained that the IT infrastructure was within the control of the Council, not the Fund.

Alison Wyatt suggested that a programme of dummy emails could be put in place to test the awareness of staff.

The Director, One West replied that a programme of work along those lines was due to take place during this current quarter.

The Digital Services Manager assured the Board that i-Connect had developed since the Internal Audit report had been produced.

The Chair suggested the following areas as possible future reviews.

- Key Controls
- Payroll
- KPIs
- Annual Benefit Statements

The Head of Audit & Assurance said that between now and the year-end they would have discussions with Pensions Officers regarding potential areas for review and look to share these with the Board in March 2024.

The Pensions Operations Manager added that she was also working with the Head of Audit & Assurance on the Pensions Increase project.

The Chair stated that he wished to acknowledge the achievement of the Fund receiving an unqualified audit opinion and having the Annual Accounts signed off by External Audit.

The Governance & Risk Advisor added that the Fund's Annual Report had now been published.

The Board **RESOLVED** to:

- i) Note the report and the outcomes of the Internal & External Audit work carried out on behalf of the Avon Pension Fund.
- ii) Suggest the following areas be considered for potential inclusion in the 2024/25 Internal Audit Plan.
 - Key Controls
 - Payroll
 - KPIs
 - Annual Benefit Statements

26 BREACHES LOG - REVIEW OF REGULATORY & DATA BREACHES

The Governance & Risk Advisor introduced this report to the Board. She explained that for the period between October 2022 to October 2023 one material breach was recorded, relating to the non-payment of pension increase awards for some members. This was reported to The Pensions Regulator on 30th November 2023.

She added that 20 data breaches had been reported to the B&NES Data Protection Officer between October 2022 and October 2023 but none met the threshold for reporting to the ICO.

She informed the Board that some minor changes have been made to the Breaches Policy to reflect revised reporting lines and job titles since the introduction of the Head of Pensions role.

The Board **RESOLVED** to note:

- i) The summary of the breaches log.
- ii) The changes to the Breaches Policy.

27 RISK REGISTER REVIEW

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas from it.

- Following the quarterly review of the risk register, one new risk has been identified and there are two changes to the current risk score.
- NR18 - A new risk has been added to capture reputational risk to the Fund. Unforeseen events or service issues leads to reputational damage to the

Fund amongst its stakeholders. This risk has been considered and mitigating actions are set out in the risk register.

- NR04 – Governance of the Fund is not in accordance with APF policies and internal controls are not adequate. This risk has been increased from medium impact and unlikely (6) to high impact and likely (16) following the non-payment of pension increases to some members. The risk has been increased while the incident is fully investigated, and Internal Audit have been asked to review payroll procedures and internal controls for year-end processes.
- NR08 - Employers unable to meet financial obligations to Fund. In the current economic climate the risk of employers being unable to meet financial obligations to Fund is elevated. There has been an increase in S114 notices issued by councils nationwide and Higher Education employers are particularly constrained as fees are fixed but costs have increased due to inflation. The Fund has no specific information about employers being unable to meet financial obligations and has strong covenant management and information gathering processes in place as a mitigation.

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

28 WORKPLAN / TRAINING PLAN

The Governance & Risk Advisor introduced the report to the Board. She commented that limited progress had been made so far with the online learning modules from Hymans Robertson and reminded them that as a Board they had committed to re-study them.

The Board **RESOLVED** to:

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

The meeting ended at 11.45 am

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services