Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 27th March, 2015, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Patrick Anketell-Jones, Lisa Brett, Charles Gerrish (Vice-Chair) and Ian Gilchrist

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), William Liew (HFE Employers), Shirley Marsh (Independent Member), Councillor Steve Pearce (Bristol City Council) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Steve Paines (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Benefit Solutions)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager), Martin Phillips (Finance & Systems Manager (Pensions)), Alan South (Technical and Development Manager) and Barrie Morris (Grant Thornton)

45 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

46 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Wendy Weston.

47 DECLARATIONS OF INTEREST

Ann Berresford declared an interest in relation to agenda item 49 as a board member of Triodos Renewables plc, a company engaged in the renewable energy sector.

The Chair declared an interest in relation to agenda item 49 as an employee of the National Environment Research Council.

Councillor Charles Gerrish declared an interest in agenda item 49 as an investor in Bath and West Community Energy.

48 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

49 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

A statement was read by Mr Richard Lawrence, a member of the Fund and a local resident, and his colleagues from Fossil Free Bristol, urging the Fund to disinvest from fossil fuels.

The Chair thanked them for their statement and said that in his view this was a significant issue, which the new Committee should consider carefully. He believed that the issue of fossil fuels differed from that of tobacco in relation to the Fund's fiduciary duty, because of the long-term (25-30 year) uncertainties about the future of the fossil fuel industry and of the continuing value of investments in it. This was, however, an issue for the new Committee.

The Head of Business, Finance and Pensions said that officers would consider how the issue could be taken forward with the new Committee. He did think, however, that the timescale suggested for disinvestment was rather ambitious, since it was not only an issue about direct investment, but also of indirect investment, since so many industries depended on the use of fossil fuels to produce their products.

A copy of the statement is attached as an appendix.

50 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

51 MINUTES: 12TH DECEMBER 2014

These were approved as a correct record and signed by the Chair.

<u>Matters arising</u>

<u>Previous minute 9:</u> a Member asked for an update on Curo. The Investments Manager replied that Curo were taking no action at present because low bond yields meant the cost of the liabilities had risen.

<u>Previous minute 43:</u> Richard Orton said that he had made a statement about the Pensions Board to Council, as he had been advised to do, but unfortunately the Council had not taken his advice. He believed that the person specification issued for prospective members of the Board were outside the spirit of the Regulations, if not of their letter. The draft Regulations had required that people had to have capacity and relevant experience to be appointed a member of a Pensions Board. This was not the case in the final Regulations, but was included in the person specification issued by the Council. He suggested this might be taken to indicate an intention to exclude potential key members. He found it disappointing that the Council had not responded when this was pointed out.

The Head of Business Finance and Pensions agreed that the Regulations had changed. However, he suggested that relevant experience would enable the Board to become fully functional sooner than if its members had to go through a long learning curve with a lot of training.

52 AUDIT PLAN 2015/16

Mr Morris presented the report. He said that the audit plan set out the significant risks that the External Auditors would be addressing in the audit and their understanding of the challenges, opportunities and further developments facing the Fund. Significant and other risks were set on agenda pages 23-25. The results of interim work were set out on pages 26-27.

[Shirley Marsh arrived at this point.]

RESOLVED to note the audit plan for the accounts for the year ended 31 March 2015.

53 UPDATE OF REGULATIONS, CODES OF PRACTICE AFFECTING LFPS & GMP RECONCILIATION

The Technical and Compliance Manager presented the report. He reminded members that the main Regulations for the new LGPS scheme had been issued last year. Subsequent key developments:

- The Pensions Regulator draft code of practice on *Governance and administration of public sector pension schemes* in January 2015. A working group of officers had been set up to consider this.

- The Pensions Act 2014 would come into force on 1st April this year.

- The expected DCLG consultation document on Best Value had not been issued and was unlikely to be until after the election.

- Budget announcement on pensions flexibility implemented by Taxation of Pensions Act 2014 (Royal Assent 17 December 2014) and the Pension Scheme Act 2015 (Royal Assent 3 March 2015). 6 Statutory Instruments had been issued under these Acts the previous week

- The LGA had issued a 104-page guidance document the previous week

- The abolition of contracting out in 2016

He said that training sessions were being held for staff.

He drew attention to his response to the DCLG on the Draft LGPS (Amendment) Regulations 2014 in Appendix 2 to the report.

A member expressed concern about the impact of the new rules on pensions' flexibility. It was suggested that the Fund should not be seen to be giving members guidance or advice whether or not to take their pensions elsewhere. The Chair suggested that all communications about flexibility to members should make it clear that the Fund was not advising them to transfer out.

A Member suggested that those transferring out of the Fund should be required to sign a document stating that they accepted the full responsibility for doing so. Another Member informed the Committee that an industry-standard certificate for this purpose had been proposed at a recent meeting he had attended. Members supported this idea.

The Head of Business Finance and Pensions noted that the average pension from the Fund was £4,000, meaning many pensions were even less, and members might be tempted to take risks with what seemed to be a small amount of money. A Member said that members might not be aware of the transaction costs of transferring out of the Fund.

A Member asked about the impact of flexibility on the Fund's cashflow and liabilities as a whole. The Investments Manager said that officers intended to do some work on this. At this stage she felt the number of members transferring out might not be as great as some feared.

RESOLVED:

1. To note the current position regarding certain matters that have implications for the LGPS.

2. To note that some of the issues in this report do have implications for the administration of the Scheme, which has been reflected in the Service Plan.

3. To note the information regarding the consultation.

54 ADMINISTRATION STRATEGY

The Head of Business, Finance and Pensions presented the report. He said that this was a revision of the Strategy approved by the Committee in 2011. It included a more detailed ICT strategy and revisions to ensure that the requirements of the Pensions Regulator are properly addressed. The Communications Policy Statement had been included, to reflect the fact that more complex issues had to be communicated to members and that there was more electronic communication. Since 2011 the aspiration had been to digitise more and more administrative transactions. There had been a great deal of progress in this, and now the aim was to achieve a step change, so that communication between employers and the Fund took place predominantly by electronic means. A significant sum in the Budget and Service Plan was earmarked for this.

A Member asked whether bespoke or off-the-shelf software would be the best option for the Fund. The Head of Business, Finance and Pensions replied that the Fund had a long-standing relationship with a particular software supplier, who were beginning to focus on developing their products. Officers of the Fund had had discussions with them about their direction of travel. They had at first suggested working with them through a users' forum, but now they were willing to engage in partnership working with one or two Funds. This would give the Fund the opportunity to input and encourage them to deliver what the Fund wanted. This would be better than buying off the shelf; in fact, there were few alternative suppliers.

A Member asked about the role of the Pensions Board. The Head of Business, Finance and Pensions replied that the requirements of the Pensions Regulator had an impact on administration. The Pensions Board is limited to monitoring compliance with the requirements of the Pensions Regulator, and references to the Board in the Administration Strategy should be understood in this light.

RESOLVED:

1. To approve:

    a. The draft Communications Policy Statement;

    b. The draft ICT Strategy;

    c. The draft Performance Standards;

    d. The draft Customer Service Charter;

    e. The draft Schedule of Additional Administration Charges;

    f. The draft Pensions Administration Strategy and annexes for the Avon Pension Fund for consultation with employers.

2. To delegate responsibility for responding to the consultation responses to officers to enable effective implementation of the Strategy from 1st June 2015.

55 BUDGET AND SERVICE PLAN 2015/18

The Head of Business, Finance and Pensions presented the report. He said that the Fund had an opportunity for a step change in service delivery. Savings had been made over the past couple of years, which had been reinvested in technology. It was expected that further savings would be generated. Membership had increased by 20% over the last four years and the number of employers in the Fund was 199, compared with 66 in 2006. There had been an increase in the number of employers requiring help and support. The Academies, in particular, were struggling with pensions issues. Logistics required a change in the way the Fund operated. Hopefully technology would allow more resources to be put at the front end.

The Chair expressed concern that big investments in IT might be wasted, should there be a move to merging local government pension funds. He also wondered whether Academies were being charged an appropriate fee for the extra costs they imposed on the Fund. He asked whether they were charged an admission fee when they joined the Fund. The Head of Business, Finance and Pensions responded that Academies were being charged where possible for the costs they imposed and were already charged a fee when they joined the Fund. A lot of officers' time was spent talking to Academies and explaining to them what their obligations were. As far as IT investment was concerned, local authority pension funds differed very much in the progress they had made. The Avon Fund was a leader and other funds were trying to catch up. Merged funds would still have to deal with a dominant IT supplier, who would be unwilling to suffer a fall in revenue; they might well raise their prices in response to a reduction in the number of customers. If the Fund chose not to invest in IT, it would be difficult to maintain administration standards and there could a risk of incurring fines by the Pensions Regulator.

[Councillor Lisa Brett arrived at this point.]

RESOLVED to approve the 3-year Service Plan and Budget for 2015-18 for the Avon Pension Fund.

56 TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) presented the report. He invited the Committee to approve the new policy and said that the only difference from the existing policy was that the use of banks outside the UK will now be permitted. This change had been made in response to the withdrawal by Barclays of their Platinum Call account. There was no equivalent alternative offered by UK banks without increasing limits on existing UK banks. The current credit ratings and investment limits requirements would apply to any non-UK bank. He said that the bank that would be used was in Bath, but its headquarters was in Sweden (which currently does not use the Euro).

Members suggested that banks in the Eurozone should be removed from the counterparties list. A member asked whether the credit ratings for these banks were reliable. Officers said that they would report back to the Chair and Vice-Chair about this.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1, subject to a report to the Chair and Vice-Chair on the credit ratings of Eurozone banks.

57 DISCRETIONS AND DELEGATIONS

The Technical and Compliance Manager presented the report. Appendix 1 explained the change in procedure required when entering into an admission agreement, and Appendix 2 updated the list of discretions delegated to officers.

A Member asked whether the guarantees for admitted bodies were secure. The Investments Manager explained that the regulations now required that newly-admitted bodies had to have either a guarantee from their parent organisation or a bond. The Fund’s previous practice had been to require a guarantee, with the parent organisation being liable for all outstanding costs at the expiry of their contract. This was the best security available. Bonds, on the other hand, would not always cover the full deficit and other pension liabilities arising when an organisation was wound up.

RESOLVED:

1. To approve the change in procedure for setting up admission agreements as set out in Appendix 1

2. To approve the updated list of discretions requiring delegations as set out in Appendix 2.

58 SCHEME EMPLOYERS AND ADMISSION BODIES UPDATE

The Investments Manager presented the report. She said this was an update on action to mitigate employer risk.

Before discussing Exempt Appendices 1 and 2 the Committee passed the following resolution:

The Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, and in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, **RESOLVES** that the public shall be excluded from the meeting for the following item(s) of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

RESOLVED to note the information in the report.

59 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He said there were three matters to note:

1. Standard Life GARS fund had been appointed for the Diversified Growth Mandate.

2. There were no recommendations from the Panel meeting of the 4 March 2015.

3. The Panel had met Schroder (Global Equity Mandate) and Partners (Global Property Mandate) on 4 March 2015.

RESOLVED to note:

1. The draft minutes of the Investment Panel meetings on 4 March 2015.

2. The recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.

60 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2014

The Assistant Investments Manager presented the report. The highlights were:

- the funding level over the quarter had declined 6% to 77% (compared with 78% in March 2013) because of a deterioration in bond yields

- the return on the Fund had been 8.4% over the year, 1% under the strategic benchmark

- there had been no change in the ratings of individual managers; two remained on amber

Mr Finch commented on the JLT report. He said that the Fund had performed better than the LGPS as a whole. He drew attention to the figures for bond yields on agenda page 182 and said that a 1% decline in bond yields increased liabilities by 20%. CPI was c. 0%, which was a positive factor. It was expected that US interest rates would start to rise later in the year. 11 of Fund's managers had outperformed in the latest quarter and over the year, and 14 had outperformed over three years. The issue about the measurement of Partners' returns by WM was being investigated by officers.

Members noted that as JLT's contract was not being renewed, this would be the last time Mr Finch would attend a meeting of the Committee. They thanked him and asked him to communicate their thanks to his colleague Mr Sheth for the support they had given them over the past few years.

RESOLVED to note the information set out in the report.

61 LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT 4TH QUARTER 2014

The Investment Manager presented the report. She drew attention to the highlights of the LAPFF report given in paragraph 4.5 of the covering report.

RESOLVED to note the LAPFF Quarterly Engagement Report.

62 PENSION FUND ADMINISTRATION - BUDGET MONITORING 2014/15, PERFORMANCE INDICATORS FOR QUARTER ENDING 31 DECEMBER 2014 AND RISK REGISTER

The Finance & Systems Manager (Pensions) presented the finance report. The headlines were:

- net expenditure forecast to be under budget

- directly controlled administration budget forecast to be £120,000 below budget partly due to temporary partial secondment of the payroll manager and support officer to the Council's payroll section

- savings were forecast on communications budget because of greater use of digital technology

- non-directly controlled budget forecast to be £440,000 under budget

- Filton Town Council was the only late payer; their payroll has been taken over by South Gloucestershire, which should lead to improvements.

The Pensions Benefit Manager presented the performance report. The highlights were:

- a marginal increase in new work cases for the third consecutive quarter

- internal processes being revised enabling workload to be managed more effectively

- a programme of training events has been undertaken to guide Fund and scheme employers through the first year-end process for CARE scheme

- 75% of employees now covered by electronic employer self service

A member asked if checks were made to ascertain that pensioners of the Fund resident overseas were still living. This was important, because it could be difficult to recover money from other jurisdictions. The Pensions Benefit Manager replied that payments overseas were made through Western Union, who carried out such checks on the Fund's behalf.

RESOLVED to note:

1. Administration and management expenditure for 10 months to 31 January 2015;

2. Performance Indicators and Customer Satisfaction feedback for 3 months to 31 December 2014;

3. Summary Performance Report for period from 1 April 2011 to 31 December 2014;

4. Risk Register.

63 LGPS COST CAP MECHANISM

The Investment Manager presented the report, which she said was intended to make Members aware of what was a very complicated process. There would be two mechanisms in England and Wales to ensure that the reforms to the LGPS would be affordable and sustainable: the employer cost cap process operated by HM Treasury, and the future service cost process operated by the LGPS Scheme Advisory Board. Local funds would have no discretion over these processes. The Fund's actuary, Mercer, would give the Committee a more detailed briefing at a future meeting.

A Member said these proposals provided an even greater incentive for the Fund to reduce costs. The Investments Manager responded that these proposals would only take future costs into account, not existing deficits. The Shadow Board was doing a project on how to manage deficits.

The Chair said that it had been argued in a recent edition of “File on 4” that merging local government funds would allow a significant reduction in costs by reducing payments to investment managers. Whether this was the case had to be looked at very carefully, but he thought it was a stronger argument for mergers than one based on administrative cost savings.

RESOLVED to note the information in the report.

64 INVESTMENT AND ACTUARIAL ADVISORY CONTRACTS

RESOLVED to note:

1. The appointment of Mercer Investment Consulting as the Fund’s Investment Consultant.

2. The appointment of Mercer Limited as the Fund’s actuary.

65 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.13 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

FOSSIL FREE BRISTOL

Statement to Avon Pension fund's March 2015 committee meeting on investments in fossil fuels and climate change.

It is now a widely held view that climate change poses a significant financial risk to the investment system and UK pension fund portfolios and that continued investment in the fossil fuel industry is unsustainable[i]. Despite this, at the beginning of 2014, the Avon Pension Fund had more than £17.4million invested in fossil fuel industries.

We are here today to highlight the risks facing the Avon Pension Fund as a result of its continued investment in fossil fuel companies. We urge the pension fund committee to act on behalf of pension holders to reduce exposure to these risks by divesting from fossil fuel interests and instead invest in supporting the transition to a low carbon economy.

*Investing in fossil fuels is **environmentally** unsustainable*

Based on overwhelming scientific evidence, we have now reached international consensus that once we surpass two degrees of global warming we are entering into the territory of unpredictable and 'dangerous' climate change ([ii]).

According to Fossil Free's 2015 Carbon Underground Report, the top 200 fossil fuel companies have reserves equivalent to an additional 555 Gigatons of potential CO_2 emissions[iii]. Pro rata with the total reserves this is almost five times more than can be emitted if we are to have an 80% chance of preventing warming from exceeding the critical two degree threshold. Furthermore, this estimate includes only those reserves already factored into the share price of corporations which continue to pump billions of shareholder dollars into the quest for deeper, more remote and longer term fossil fuel supplies. Deutsche Bank estimate that in 2014 alone, the oil industry spent $650bn on exploration and the development of new reserves[iv].

*Investing in fossil fuels is **economically** unsustainable*

Aside from the obvious environmental, social, and economic implications of perpetuating our reliance on fossil fuels and our relentless advancement towards 'catastrophic' climate change, it is increasingly clear that the fossil fuel industry is based on a fundamentally unsustainable business model. This in turn throws into question the viability of their long term investment potential.

There has been much discussion around the 'carbon bubble' resulting from the over-valuation of stocks in coal, gas and oil reserves and the belief that much of this value may never be realised. In the event that an international agreement on climate change is reached, many of the fossil fuel assets currently listed on the world's stock market could become 'stranded[v]'. The Bank of England is currently undertaking an enquiry into the risk of fossil fuel companies causing a major economic crash if their coal, oil, and gas assets are rendered worthless[vi].

In this context, we must seriously question whether investment in fossil fuels is an appropriate strategy for long-term pension funds. We think not. And we are not alone in doing so. International non-profit 350's Fossil Free campaign is putting pressure on organisations all over the world to shun unsustainable fossil fuel investments. What is more, a growing number of these organisation are responding and committing to divest from fossil fuels, realising that to do so makes economic as well as environmental sense. The Fossil Free website lists some of the many colleges, universities, cities, counties, religious and other institutions that have committed to divestment both here and around the globe. The list names the University of Bedford, University of Glasgow and Oxford City Council among others[vii]2

Avon Pension Fund position on climate change and fossil fuel investment

We are grateful to Liz Woodyard for her openness in recent correspondence regarding APF's approach to responsible investment in the face of climate change concerns. From this exchange we understand that:

- As set out in its investment strategy and responsible investment policy, APF relies on ESG policies let by investment managers to help guide responsible investments. However, these policies do not appear to take into account the impact associated with its £17.4m of fossil fuel investments.
- APF is awaiting further understanding on the relationship between fossil fuels and climate change and on the approaches to managing those risks before responding to the climate change agenda
- APF has not yet established the carbon footprint of its investment portfolio
- Investment managers have not been asked by APF to specifically consider the feasibility of allocating capital away from fossil fuels
- Alternative indices for passive investments have been considered as part of a strategic review

We urge APF to divest from fossil fuels and invest instead in supporting the shift to a low carbon economy[viii]. In addition to the environmental and economic reasons described above, we see APFs continued support of the fossil fuel industry as inappropriate given our region's desire to position itself at the forefront of sustainability and low carbon innovation. As European Green Capital, Bristol City Council has already committed not to invest in fossil fuels.

Based on our correspondence with LAPFF, we understand that the preferred strategy for pension funds is to use their investments as a lever to influence the activities of fossil fuel companies rather than commit to divestment. We understand that in some cases pension fund shareholders have begun to challenge Exxon, Shell, and BP to show how their business model is compatible with two degree warming.

In this context, we call for APF to:

1. Share with us the results of their engagement with fossil fuel companies and, crucially, their escalation strategy should such engagement fail to deliver results with the urgency necessitated by the scale of the risk faced.

2. Consider the financial feasibility of divesting from fossil fuels over a period of time with a view to:
    a. Immediately freeze any new investments in fossil fuels
    b. Divest immediately from pure-play coal companies
    c. Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within five years
3. Take a proactive and strategic approach to supporting the transition to a low-carbon economy by:
    a. Assessing what proportion of the fund's assets are invested in industries that facilitate this transition (e.g. renewable energy, waste management etc.)
    b. Requiring asset managers to present information on a range of opportunities for low-carbon investment
    c. Setting a target for increased investment in the low-carbon economy
4. Contact the Environment Agency Pension Fund, a global leader in concurrently protecting financial returns and mitigating climate change

As pension holders and citizens, we have a considerable stake in the work of the APF in this area and welcome the opportunity to attend a meeting with members where our recommendations could be explored in more details. Please address any contact to FossilFreeBristol@gmail.com

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[i] http://www.bloomberg.com/news/articles/2014-12-02/oil-investors-may-be-running-off-a-cliff-they-can-t-see

[ii] Smith J. B., et al.

2009 Assessing dangerous climate change through an update of the Intergovernmental Panel on Climate Change (IPCC) 'reasons for concern' Proc. Natl Acad. Sci. USA 106 4133–4137 doi:10.1073/pnas.0812355106 (doi:10.1073/pnas.0812355106)

https://www.ipcc.ch/pdf/assessment-report/ar5/syr/AR5_SYR_FINAL_SPM.pdf

[iii] Fossil Free Indexing http://fossilfreeindexes.com/

[iv] Page 19 https://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000349119/Konzept+Issue+02.pdf

[v] http://www.theguardian.com/environment/2015/jan/07/much-worlds-fossil-fuel-reserve-must-stay-buried-prevent-climate-change-study-says

[vi] http://www.theguardian.com/environment/2014/dec/01/bank-of-england-investigating-risk-of-carbon-bubble

[vii] http://blueandgreentomorrow.com/2013/07/05/norwegian-pension-fund-divests-from-financially-worthless-fossil-fuels/
http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11114591/Rockefeller-family-sells-outof-fossil-fuels-and-into-clean-energy.html

[viii] http://unfccc.int/files/press/press_releases_advisories/application/pdf/pr20140115_ceres_final1.pdf
http://www3.lancashire.gov.uk/corporate/news/press_releases/y/m/release.asp?id=201302&r=PR13/0065