BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 11th December, 2020

Present:- Councillors Bruce Shearn (Chair), Shaun Stephenson-McGall (Vice-Chair), Chris Dando, Paul May and Manda Rigby

Co-opted Voting Members: Councillor John Cato (North Somerset Council), Councillor Steve Pearce (Bristol City Council), Councillor Toby Savage (South Gloucestershire Council), Charles Gerrish (Academies), William Liew (HFE Employers), Shirley Marsh-Hughes (Independent Member), Pauline Gordon (Independent Member), John Finch (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Wendy Weston (Trade Unions) and Cllr John Goddard

Advisors: Steve Turner (Mercer) and Nick Page (Mercer)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager), Kathryn Shore (Technical and Compliance Advisor) and Carolyn Morgan (Governance and Risk Advisor)

32 WELCOME & INTRODUCTIONS

The Chair of the Committee welcomed everyone to the meeting.

33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies had been received from co-opted member Mike Rumph.

34 DECLARATIONS OF INTEREST

There were none.

35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

38 MINUTES: 25TH SEPTEMBER 2020 (PUBLIC) / 25TH SEPTEMBER 2020 (EXEMPT)

The minutes were approved as a correct record.

39 PENSION BOARD MINUTES: 13TH NOVEMBER 2020

The Committee noted the minutes of the Pension Board from their meeting that took place on 13th November 2020.

40 FUNDING STRATEGY STATEMENT - POLICY UPDATES

The Group Manager for Funding, Investment & Risk introduced this report to the Committee. She informed them that a number of changes to the regulations were made in September 2020 following the Governments partial response to a consultation which commenced in 2018. The Fund responded to this consultation at the time.

She stated that for the Fund to implement these changes it must have a policy set out in its Funding Strategy Statement (FSS).

She explained that although the supporting statutory guidance and the further guide from the Scheme Advisory Board (SAB) is yet to be published, the Actuary has drafted the policies for the Committee to approve the key principles embedded in each policy.

She added that any amendments required once the statutory guidance and guide is published in 1Q21 will be agreed by Officers in consultation with the Actuary. She said that if there are any substantive changes in the principles, the policy will be brought back to Committee for further consideration.

She said that there will be a short consultation with employers once the draft policies have been finalised.

Pauline Gordon asked how long the payment periods were planned to be, do they fit the recovery plan or are they shorter.

Paul Middleman, Mercer replied that it depends on what is being considered. He added that if exit payments were to be spread, it shouldn't over longer than a five-year period, subject to consultation. He said that in terms of a deferred debt agreement this is a specific individual agreement which will depend on circumstances. He added if there was an employer they had concerns about we would want a short period to close down the debt and if no concerns were identified it could be over a longer period and could become a rolling period. He stated that all risks would be assessed and that sensible decisions will be taken on behalf of the Fund.

Richard Orton commented that any arrangements made with employers should not weaken the fund.

Paul Middleman replied that the default position will remain that employers will have to pay their debt. He added that robust arrangements will be in place to provide assurance and to monitor to make sure that changes are factored in.

Councillor Paul May asked whether a risk assessment should be attached to the report.

Paul Middleman replied that the policy itself is structured to deal with risk. He added that feedback was expected from employers during the consultation but that he did not envisage a great deal of changes to the policy.

Shirley Marsh-Hughes asked what the parameters would be on contribution changes and would there be assumptions made on the last valuation.

Paul Middleman replied that it would effectively be consistent with the assumptions on the last valuation made. He added that there will be two ways in which we will look at changes in contributions. Firstly, if an employer's structure changes, their liabilities change and this would be considered a macro level and follow due process and not look at assumptions. Secondly, if the issue related to covenant there would be limiters in place and the rate wouldn't be changed if liabilities had changed by less than 5% and this would then be looked at the next valuation.

The Head of Business Finance & Pensions commented to assure the Committee that the Fund would get a bit more flexibility if the policies are approved, but stated that the Fund can't enter into debt arrangements without the agreement of the Section 151 officer. He added that a thorough risk review would take place before any such decisions are made.

William Liew asked if many employers were knocking at the door currently to exit the Fund.

The Group Manager for Funding, Investment & Risk replied that none were knocking at the door, but that she was aware of a small number of employers with low employee numbers who were looking at their options.

William Liew asked if employers would incur charges for exiting the Fund.

The Group Manager for Funding, Investment & Risk replied that it states within the policy that they will incur a charge.

The Committee **RESOLVED** to;

i) Approves:
a) The draft policy for Deferred Debt Agreements subject to the publication of statutory guidance and SAB guide

b) The draft policy for Flexibility in Contribution Rates subject to the publication of statutory guidance and SAB guide

ii) Delegates amending the draft policies following publication of the guidance, as necessary, to Officers having taken advice from the Scheme Actuary.

41 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this item to the Committee and explained that the report outlines the progress on pooling of assets covering governance, investments and operational / financial aspects of the pool.

With regard to governance she highlighted that the Client Group reviews each portfolio in more depth on a quarterly basis and will highlight any issues / areas of concern to the Brunel Oversight Board (BOB).

To summarise 3Q20 RAG reporting:

(i) The listed active and passive portfolios are all rated green meaning there are no concerns with the portfolios

(ii) The private market portfolios are rated green; however, deployment of capital in some asset classes is slower than anticipated due to COVID-19.

(iii) There are no RED rated strategic risks.

She explained that following a pause in transitions during 2Q20 due to market volatility as a result of COVID, transitions resumed in July with DGF funds transitioning to the Diversified Returns Fund; Global Small Cap Equity and Sustainable Equity portfolio transitions completed in September. Avon was involved in both the Diversified Return Fund and Sustainable Equity transitions.

The Committee **RESOLVED** to:

i) Note the progress made on pooling of assets.
ii) Note the updated project plan for the transition of assets.

42 INVESTMENT PANEL ACTIVITY

The Investments Manager introduced this report to the Committee and highlighted the following areas to them.

Dynamic Equity Protection – Strategy Design: Panel agreed to implement a dynamic equity protection strategy using a ‘bank-led’ approach at its August meeting, per Mercers recommendation. At its most recent meeting Panel - reviewed the design of the strategy and delegated further implementation, including the appointment of a counterparty bank, to Officers and Mercer.

During the meeting Mercers focussed on how the proposed strategy (a “put spread calendar collar”) is designed to meet its objective of limiting the impact of a fall in equity markets while offering sufficient upside potential by defining a set of parameters prior to implementation. These parameters should be set in order to minimise volatility, thereby maximising risk-adjusted returns generated by the strategy.

Taskforce for Climate-related Financial Disclosures (TCFD) – The significant amount of work already undertaken by the Fund to address climate risk within the investment strategy means it is in a position to disclose its activities in line with the TCFD recommendations. The TCFD framework is considered best practice with respect to climate relates risk disclosures.

Adopting the recommendations for the year ending 31 March 2021, ahead of any regulatory requirements, demonstrates the commitment the Fund has to addressing climate risk and capturing opportunities as well as encouraging better disclosure across the industry.

The Committee **RESOLVED** to:

i) Note the decisions as summarised in paragraph 4.1 of the report.

ii) Note the minutes of the Investment Panel meeting on 20 November 2020 at Appendix 1 and Exempt Appendix 2.

43 INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 30 SEPTEMBER 2020)

The Investments Manager introduced this report to the Committee and set out some of the key areas within it.

Liability Risk Management Strategy Performance - The Fund's inflation hedge ratio was increased to 35% of assets in line with the recommendation agreed by Committee at its September meeting.

The announcement on RPI reform clarified that the Retail Price Index (RPI) will align to the UK Consumer Price Index from 2030 and that there will be no provision for compensation to existing index-linked gilt holders. With inflation risks to the upside persisting, Officers and Mercer will work with the manager to further increase the inflation hedge ratio of the LDI programme to the maximum allowable under mandate guidelines, under delegated authority.

Fund Performance

Steve Turner, Mercer addressed the Committee and said that overall it had been a positive quarter and that generally the market outlook appeared to be good. He added that the only negative performers in the portfolio were UK equities, which remain subdued due to ongoing Brexit negotiations and secured income, which is still in the process of being drawn down. He said that further upsides in equities were possible in Q2 and that credit spreads were now back to pre-pandemic levels.

Councillor Toby Savage said that he felt that the report was encouraging and asked how the Fund compares statistically with funds that have a comparable investment strategy

Steve Turner replied that it was difficult to compare Funds as they could be operating a number of different strategies within each Fund. He added that he believed that the

Avon Pension Fund was well placed in the pack and that the focus should be on its funding position.

Pauline Gordon asked regarding RPI hedging whether there was any indication of the price in comparison to what we would consider fair value when we think about the trigger framework and where the Fund would be if the decision to reduce the inflation hedge ratio hadn't been taken in April 2020.

Nick Page, Mercer replied that at all points across the curve we are higher than where inflation is which is a good reference point. He added that there is a need to look at where best on the curve closest to our trigger levels to implement the hedge.

He said in relation to taking the decision to reduce the hedge that initially there was a loss of around £40m, however since then as inflation has risen we have been able to recoup a substantial amount of that figure.

Councillor John Cato referred to page 119 of the agenda and asked if where targets were not being met were the managers being managed appropriately.

Steve Turner replied that the figures related to performance since inception. He added that Ruffer DGF was on its way out of the Fund and that Loomis Sayles MAC was due to be transferred to Brunel. He said that there was a need to be pragmatic and for a long-term approach to be taken on Partners Overseas Property.

Councillor John Cato referred to page 137 of the agenda and asked if officers had any influence on the engagement data gathered.

The Group Manager for Funding, Investment & Risk replied that they do have input into the engagement data collected by the LAPFF (Local Authority Pension Fund Forum) and said that it was led by topical issues and that it was clear that Climate Change remained a significant priority.

The Committee **RESOLVED** to note the information set out in the report and appendices.

44 UPDATE ON LEGISLATION

The Technical & Compliance Advisor introduced this item to the Committee and highlighted the following points.

A regulatory update has been included in the papers for noting and gives the position on key issues as at the end of October 2020.

<u>HMT Public Sector Exit Payments Cap / MHCLG Consultation on Further Reform to Exit Payments</u>

There have been some further developments with the 95k exit payment cap as we have now obtained legal advice on the best course of action to take in the interim period, until the LGPS regulations are amended to accommodate the cap. As a result of that advice we have taken the decision to offer a member who exceeds the 95k cap the option of taking immediate payment of fully reduced benefits or the option to defer their benefits for payment at a later date. This is also in line with the Government and Scheme Advisory Board recommendations. We have further adopted a partial change in the factors used to calculate pension strain costs following a formal recommendation from our Actuary. New processes are now in place to deal with any cases that arise going forward.

Charles Gerrish commented that previous Council services that had been privatised would not be subject to the cap and asked if this were likely to change.

The Technical & Compliance Advisor replied that she did not expect this to change, however, the Government does have the ability to amend the schedule, listing those bodies covered by the regulations, as and when required.

Richard Orton said that the situation was a complete mess and had been ongoing since 2015. He asked if any consultation response was forthcoming and whether the administering authority was making employers aware of the current status.

The Technical & Compliance Advisor replied that a response had been submitted to the consultation and that the LGA had also submitted a technical response. She added that employers are provided with the strain on fund costs.

Richard Orton asked if the Committee could be sent the response.

The Technical & Compliance Advisor replied that it would be circulated.

Councillor Paul May commented that he would like to see the exclusions removed so that the cap was in place for all public sector employers and proposed this as an amendment to the recommendations within the report.

Councillor Manda Rigby seconded the proposal.

William Liew said that he would vote against this proposal as the funding system is different for the excluded employers.

The amendment was not successful following a vote by the Committee.

The Committee **RESOLVED** to;

i) Note the current position regarding the developments that could affect the administration of the fund

ii) Note the response sent to the MHCLG consultation on ‘Removing Age Discrimination’.

45 PENSION FUND ADMINISTRATION

The Pensions Manager introduced this report to the Committee and highlighted the following areas within the report to them.

APF Performance

The Fund has focussed on critical member processes including the processing of retirement and death benefits. KPI's are monitored and reported to the Pensions Manager for review on a bi-weekly basis. The KPI's for Fund Performance against the SLA were mainly on target.

At the end of September with an overall 3,266 cases outstanding of which 1,945 (59%) are workable. This represents an overall increase in outstanding workable cases over the previous period and this in part can be attributed to an increase in additional workload created by the year end reconciliation process.

Pension Savings Statements

Detailed work undertaken by Quality Assurance team to complete the process to assess member savings has been completed. The Fund issued 68 Pensions Savings Statements for LGPS members.

The Fund is required to issue a statement if pensions savings in the APF exceed the standard annual allowance.

Members are legally required to receive notification by 6th October however due to the impact of COVID-19 there was a short delay this year with statements being issued during w/c 19th October. The Pension Regulator has been informed of the delay and has advised the Fund that no further action will be taken.

Risk Register

The Risk Register follows the Council's format for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in November 2020. The management of the risk register has been updated with the introduction of a more robust process for identifying and managing risks.

Following a recent risk management audit a further review will be carried out of the process and the risk register to make the correlation between the risks identified in the Investment, Funding and Administration Strategies and the risk register clearer.

All risks have been reviewed and updated to reflect the high impact of the Covid-19 outbreak across many aspects of the Fund. A new risk was added in May 2020 focusing on the sustainability of remote working so that the Fund is able to continue to deliver the service to members and employers.

Following the quarterly review all risks remained unchanged in terms of risk score apart from:

- Introduction of £95k cap - legislation implementing the £95k cap on exit payments came into force on 4 November. This is ahead of the changes required to the LGPS regulations which are currently in the process of being consulted upon and are expected in early 2021. This leaves the Fund in an uncertain position legally and legal advice has been sought on how to proceed with cases in the interim period. There is also further reform expected with the LGPS regulation amendments.

Other updates for this quarter which did not affect the overall risk score were:

- The McCloud consultation has now closed and a response is expected to be issued by MHCLG in early 2021 outlining the final remedy. Changes to primary legislation not expected until April 2022. Work is underway to develop a comprehensive project programme with multiple workstreams contained within it.

  Initial analysis has been carried out to identify the number of members that are impacted by the consultation proposals, the action required to implement the remedy and which employer they fall under. The current priority is to collect missing data from employers in respect of working hours and details of service breaks, since 1 April 2014, for all members in scope of protection.

The sustainability of remote working continues to be monitored. A review of staff identified as needing to return to the office was done but due to latest Government guidance all staff will continue to work from home for time being. Roll out of new IT equipment to all staff expected by April 2021.

The first phase of three phases of recruitment for Administration posts started in September 2020. A Trainer has been appointed to train the new recruits. A new member of the Investments Team has been appointed and will start in January 2020.

Shirley Marsh-Hughes asked regarding recruitment if the number of people applying for posts and quality of applicants was sufficient.

The Pensions Manager replied that the quality and number of applicants for posts has been good and that over the three phases the current plan is to recruit to 11 posts.

Shirley Marsh-Hughes asked if any work would need to be outsourced regarding the McCloud legislation.

The Pensions Manager replied that a decision had not yet been taken as to whether this work would be carried out solely in house, outsourced or a combination of both.

Councillor Paul May wished to congratulate the Pensions Manager and the team as a whole for all the work they had done this year under such difficult circumstances.

He asked if the Committee could be informed of any progress on McCloud in between when they meet formally.

The Pensions Manager replied that yes this could be done.

The Committee **RESOLVED** to:

i) Note the Fund and Employer performance for the three months to 30th September 2020.

ii) Note the updated Risk Register and actions taken.

46 BUDGET & CASHFLOW MONITORING

The Group Manager for Funding, Investment & Risk introduced this report to the Committee and highlighted the following areas within it.

The forecast for the year to 31 March 2021 is for expenditure to be £249,000 below budget.

Within the directly controlled Administration budget expenditure is forecast to be £264,000 under budget. The forecast reduction in directly controlled expenditure is largely related to salaries, due to delays in filling vacant posts.

There are also predicted underspends in relation to staff travel and training, because of the pandemic.

In the part of the budget that is not directly controlled, the forecast for the year is an overspend of £160,000. This overspend is a combination of a predicted overspend relating to Investment Governance and Compliance with small underspend relating to independent member costs.

Overall the budget forecast is still within the 2020/21 budget with a small underspend of £104,000.

Wendy Weston asked if the savings due to vacant posts has resulted in pressures across the team.

The Group Manager for Funding, Investment & Risk replied that the pressure has been recognised as demands are increasing on the team as a whole. She added that it has been particularly hard to recruit within the Specialised Investment team.

The Committee **RESOLVED** to:

i) Note the administration and management expenditure incurred for 7 months to 31st October 2020.

ii) Note the Cash Flow Forecast at 31 October 2020.

iii) Note the forecast overspend in Governance and Compliance costs, which is financed through savings elsewhere in the budget.

47 WORK PLANS

The Governance and Risk Advisor introduced this report to the Committee and highlighted the following areas within it.

The new quarterly monitoring report for the Service Plan covers a high level overview of all projects for the Investments and Pensions Administration teams including progress to date.

Member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

The purpose of the work plans is to provide members with an indication of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets/regulations.

The provisional training programme for 2019-21 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit. It also includes workshops to cover aspects of training requested in the self-assessment exercise.

Charles Gerrish asked why in Appendix 1a the objective 'Development of management information hub' is only shown as Amber when the target date is set as April 2019.

The Governance and Risk Advisor replied that she was aware that some testing had been carried out on this task.

The Pensions Manager added that the task has taken longer than anticipated and needs to be developed to be fit for purpose.

Shirley Marsh-Hughes suggested that projects that were behind schedule be allocated revised dates.

The Governance and Risk Advisor agreed.

The Committee **RESOLVED** to note the quarterly monitoring report for the Service Plan, the Committee & Investment Panel work plans and training programme for the relevant period.

The meeting ended at 3.49 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services