

# Avon Pension Fund Committee

**Date: Friday, 11th December, 2020**

**Time: 2.00 pm**

**Venue: Virtual Meeting - Zoom - Public Access via  
YouTube**

**<https://www.youtube.com/bathnescouncil>**

**Bath and North East Somerset 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), Richard Orton (Trade Unions), Shirley Marsh-Hughes (Independent Member), Pauline Gordon (Independent Member) and John Finch (Independent Member)

**Co-opted Non-voting Members:** Wendy Weston (Trade Unions), Michael Rumph (Trade Unions) and Cllr John Goddard (Parish and Town Councils)

Chief Executive and other appropriate officers

Press and Public



**Mark Durnford**

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## NOTES:

1. Inspection of Papers: Papers are available for inspection as follows:

Council's website: <https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1>

2. Details of decisions taken at this meeting can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. Broadcasting of Meetings:- The Council will broadcast the images and sounds live via the internet <https://www.youtube.com/bathnescouncil>

The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Participation at Meetings: The Council has a scheme to enable the public to make their views known at meetings. They may submit a written statement relevant to what the meeting has power to do. They may also submit a petition on behalf of a group. Advance notice is required not less than two working days before the meeting.

This means that for meetings held on Thursdays notice must be received in Democratic Services by 5.00pm the previous Monday. Further details of the scheme can be found at: <https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942>

5. Supplementary information for meetings: Additional information and Protocols and procedures relating to meetings

<https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505>

**Avon Pension Fund Committee - Friday, 11th December, 2020**  
**at 2.00 pm in the Virtual Meeting - Zoom - Public Access via YouTube**  
**<https://www.youtube.com/bathnescouncil>**

**A G E N D A**

1. WELCOME & INTRODUCTIONS
2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS
3. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

- (a) The agenda item number in which they have an interest to declare.
- (b) The nature of their interest.
- (c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR
5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS
6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 25TH SEPTEMBER 2020 (PUBLIC) / 25TH SEPTEMBER 2020 (EXEMPT) (Pages 7 - 24)
8. PENSION BOARD MINUTES: 13TH NOVEMBER 2020 (Pages 25 - 32)

The purpose of this item is to notify the Pensions Committee of the latest draft Local Pension Board minutes.

9. FUNDING STRATEGY STATEMENT - POLICY UPDATES (Pages 33 - 46)

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

10. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 47 - 68)

This report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.

11. INVESTMENT PANEL ACTIVITY (Pages 69 - 88)

The Panel's last formal meeting was held on 20 November 2020. The draft minutes of this meeting provide a record of the Panel's debate before reaching any decisions or recommendations.

12. INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 30 SEPTEMBER 2020) (Pages 89 - 140)

This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level; and policy and operational aspects of the Fund.

13. UPDATE ON LEGISLATION (Pages 141 - 178)

The purpose of this report is to update the Pensions Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration.

14. PENSION FUND ADMINISTRATION (Pages 179 - 210)

The purpose of this report is to inform the Pensions Committee of the performance for Fund Administration for the period up to 30<sup>th</sup> September 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23<sup>rd</sup> March 2020.

15. BUDGET & CASHFLOW MONITORING (Pages 211 - 220)

The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 7 months to 31 October 2020.

16. WORK PLANS (Pages 221 - 242)

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

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

**BATH AND NORTH EAST SOMERSET**

**AVON PENSION FUND COMMITTEE**

Friday, 25th September, 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)

**Advisors:** Steve Turner (Mercer) and Ross Palmer (Mercer)

**External Managers:** Laura Hobbs (Brunel), Helen Price (Brunel) and Chris Crozier (Brunel)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

**15 WELCOME & INTRODUCTIONS**

The Chair of the Committee welcomed everyone to the meeting.

**16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies had been received from co-opted member Councillor Toby Savage.

**17 DECLARATIONS OF INTEREST**

There were none.

**18 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

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

There were none.

**20 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

## **21 MINUTES - 26TH JUNE 2020**

The minutes were approved as a correct record.

## **22 ANNUAL RESPONSIBLE INVESTING REPORT**

The Investments Manager introduced this report to the Committee.

He stated that Brunel are our strategic partner for developing, implementing and monitoring our Responsible Investing policies and priorities. He added that for the year ending December 2019 Brunel have published a Responsible Investing and Stewardship Outcomes Report.

He explained that the report sets out the Responsible Investing and Environmental, Social and Governance (ESG) issues that have been taken into account and how these were addressed through strategic decision making.

He informed the Committee that some of the major strategic updates during the year were as follows:

- The climate change modelling work undertaken by the Fund as part of the 2019/20 investment strategy review leading to a series of climate change objectives and asset allocation changes
- Transition of assets to Brunel and further policy development in collaboration with Brunel and its strategic partners
- Monitoring, reporting and scrutinising investment managers Responsible Investing activity
- Active participation in several industry initiatives including Local Authority Pension Fund Forum (LAPFF) and ClimateAction 100+ (CA100+). This year the Fund joined the Institutional Investors Group on Climate Change (IIGCC) and post period-end has been working with IIGCC and Brunel to help develop a framework for investors' asset allocation to meet the Paris Agreement goal of becoming <2°C aligned

Wendy Weston commented that at the next Committee meeting she would like to hear any progress on the Barclays AGM shareholder resolution and referring to the LAPFF Quarterly Engagement Monitoring Report, how other financial institutions are dealing with Responsible Investing.

Laura Hobbs, Responsible Investment Manager, Brunel gave a presentation to the Committee, a summary is set out below.

### Brunel overview

Brunel Pension Partnership is one of the eight national Local Government Pension Scheme (LGPS) pools, bringing together circa £30 billion investments of 10 likeminded funds.

Brunel formally began its operations on 18 July 2017 upon the execution of the current shareholders agreement and its subsequent annexes, such as the services agreement.

### Covid-19 / Responsible Investment (RI)

The Covid-19 pandemic has had a profound impact on the economy and employment and has fired up Responsible Investment activity by putting a spotlight on ESG investing.

Policy makers are being urged to step-up with the growing likelihood of possible future pandemics.

Covid-19 has heightened almost every area of our work and uncovered important new topics. Climate change remains a focus.

### Climate Change – Barclays update

Brunel co-filed the first ever shareholder climate resolution at a major European bank in December 2019. 23.95% of votes supported the resolution at the Barclays AGM in May 2020 demonstrating clear shareholder backing for the bank to become net zero by 2050.

### Climate Change – Blackrock update and TCFD (Task Force on Climate-related Financial Disclosures)

Following extensive engagement with Blackrock, we welcomed their public stance over voting against 53 companies and putting another 244 on 'watch' for inadequate action over climate risk

TCFD could be embedded in UK pensions law

Net Zero Framework – IIGCC project to pilot new tools to assess our portfolios' alignment with climate goals

### Climate Change - Net Zero Investment Framework

The framework has been developed with over 70 global investors, representing more than \$16 trillion, through the Institutional Investors Group on Climate Change (IIGCC)

Aims to maximise investor contribution to decarbonisation, helping to keep global temperature rises below 1.5°C

Brunel is among a group of 5 investors that are testing the framework, by modelling the impact of real-world portfolios

Working with Avon, we submitted three portfolios for modelling:

- 'Benchmark Portfolio' – passive portfolio with no climate considerations integrated

- ‘Current Portfolio’ – the listed portion of Avon’s current investment portfolio
- ‘Future Aligned Portfolio’ – hypothetical portfolio applying the Net Zero methodology to Avon’s portfolio

We look forward to sharing the results of the modelling with analysis and the final framework in 2021.

### Climate Change – how do we measure our progress?

We aim to have all of our material holdings on TPI (Transition Pathway Initiative) level 4 or above by 2022

We aim to reduce the carbon intensity of our Portfolios by 7% each year vs the benchmark

PAII Project will help us to define what a Paris Aligned Portfolio looks like and inform how we progress towards alignment

### Covid-19 has created a spotlight on the ‘S’ of ESG

Racial inequality – Talk About Black blog  
Labour standards and modern human slavery  
Workplace mental health

We have been engaging across all of these topics, both directly with companies and through our asset managers, working collaboratively with other investors in the industry.

### Racial inequality – Talk About Black blog

Helen Price, Stewardship Manager, Brunel led on this area of the presentation as she had published the blog

We are members of the Diversity Project and contributed to guidance around how asset owners can integrate diversity into the selection process

We are seeking to improve the amount of data available around diversity and inclusion, working with data and engagement providers

### Migrant Labour and Modern Human Slavery

Covid-19 has created a migrant labour crisis, particularly in the Middle East. Alongside 38 other investors, comprising \$3 trillion we have written to 54 companies who have operations in The Gulf, focusing on high risk sectors of hospitality, construction and oil and gas.

We are asking companies to:

- Engage independent specialists to perform exit interviews
- Commit to reimbursing recruitment fees and adopt the ‘employer pays principle’



- Perform best practice due diligence on labour outsourcing companies

### Workplace Mental Health

We wrote to all FTSE 100 companies alongside a coalition of investors with £2.2 trillion.

Urging companies to develop a specific 'mental health during Covid-19 action plans', with items such as:

Training for all line managers on how to spot signs of poor mental health and assist vulnerable employees

Increased flexibility in job design and performance appraisals

Clear details for employees on how to access support

### Brunel's PRI (Principles for Responsible Investment) Assessment

We are very pleased with our results as our score was above the median score for all modules.

### Sustainable Investment Awards

2020 Winner – Pension Fund of the Year

Councillor Paul May praised their good work and commented that it was good to be better than the benchmarks that have been set. He asked if targets for improvement on climate change / ecological emergencies could be agreed. He also suggested a local focus on additional housing concerns.

Laura Hobbs replied that Brunel do have a target to reduce the carbon intensity of their portfolios by 7% each year vs the benchmark.

She said that they would be happy to work with the Committee on specific climate change goals. She added that they will have input into the 2022 stocktake and that RI covers many areas such as deforestation and water quality.

Councillor Shaun Stephenson-McGall asked if in the stocktake of 2022 will the fund start to divest from laggard companies. With regard to human capital he also asked how Brunel would engage with companies such as Wells Fargo following comments made by their CEO.

Laura Hobbs replied that they were aware that some clients were discussing divestment internally and it was something that could be fed into the 2022 stocktake.

Helen Price added that unfortunately comments like that are still heard a lot across our industry as an excuse for not employing staff from BME backgrounds. She added that the comments are not acceptable and that Brunel have feedback to many companies on this issue through their work on the Diversity Project to try to ensure that diverse talent is sought.

She explained that a specific piece of work was currently ongoing with local universities to recruit 100 black interns to work within Asset Management companies.

Richard Orton said that in 2022 the Fund must divest from those companies that do not take the matter of climate change seriously enough and that if it did not the Fund would look weak.

The Group Manager for Funding, Investment & Risk said that work was already underway with regard to future stocktakes and that a great deal of progress had been made over the past 12 months. She added that it would be welcome to have better and more appropriate benchmarks to measure our investments against.

John Finch asked if Covid-19 has moved us towards being better ESG citizens.

Laura Hobbs replied that she felt that it has highlighted to people the ecological and environmental importance of where they live. She added that it was important for companies to look after their employees and have a sustainable approach to their work. She said that it has made people more aware of the need to have a more sustainable economy.

Pauline Gordon said that she was very pleased with the progress that Brunel has made on the issues and felt that they were leading the way on Climate Change and Responsible Investing.

The Committee **RESOLVED** to:

- i) Approve the Annual Responsible Investment Report for 2019/20 for publication
- ii) Agree the RI priorities for 2020/21

## **23 INVESTMENT STRATEGY STATEMENT**

The Group Manager for Funding, Investment & Risk introduced this report to the Committee. She explained that regulations state that the Investment Strategy Statement (ISS) must be kept under review and revised from time to time particularly when there is a material change in risk and reviewed at least every three years. She said that the current statement has been revised to include changes arising from the Fund's 2019/20 investment strategy review, specifically: increased allocations to private market assets, the development of climate change objectives and ensuing changes to the Fund's equity allocation. She added that updates have also been made to sections covering the Fund's risk management strategies and pooling.

She informed the Committee that there has been a consultation with scheme employers and Trade Unions as well as publishing it on the website for wider comments. She added that in addition, the Pension Board has reviewed the draft statement for compliance with the regulations.

Richard Orton asked if there were only three responses received during the consultation.

The Group Manager for Funding, Investment & Risk confirmed that this was the case. She added that the consultation had come at a difficult time during the start of the pandemic and was probably not a priority for employers and stakeholders. She said the document was also quite technical as it is a statutory document and therefore not easy to comment upon.

Councillor Paul May asked if the issue of an ecological emergency can be referred to in the statement and for specific targets to be set with regard to climate emergency. He also asked for companies that are below level 4 of the TPI (Transition Pathway Initiative) to be challenged and for the Fund to consider disinvestment from them in future years.

The Group Manager for Funding, Investment & Risk replied that in the current statement objectives were agreed on those issues and that the new stocktake would give us a clearer idea on how quickly we can achieve what we want to.

She added that discussions on divestment and how portfolios might change would take place with Brunel if required and that we need to make sure that what we invest in can actually deliver.

The Head of Business Finance & Pensions said that the 2022 / 23 stocktakes would be a watershed moment for the Fund in terms of putting pressure on for our objectives. He stated that there was still work to be done and that we need to ensure that pensions can still be paid.

Councillor John Cato said that he supported the ISS and the comments made during debate regarding further acknowledgement of ecological and biodiversity matters.

The Committee **RESOLVED** to:

- i) Note the conclusion from the Pension Board that the Draft ISS complies with the regulations and statutory guidance
- ii) Note the comments from those that responded to the consultation
- iii) Approve the ISS for publication

## **24 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING**

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

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

The Committee **RESOLVED** to:

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

## **25 INVESTMENT PANEL ACTIVITY**

The Investments Manager introduced this item to the Committee. He informed them that following a report on a UK Property Portfolio Proposal from Brunel the Panel considered target sector exposure, the estimated cost of realigning the existing portfolio and how Brunel utilise third party advisors to ensure the team can access relevant sector/fund research and enhanced due diligence.

He explained that having considered the transition process and proposed sector changes, Panel concluded that Brunel's approach was reasonable and cost efficient.

The Committee **RESOLVED** to:

- i) Note the decisions as summarised in paragraph 4.1
- ii) Note the minutes of the Investment Panel meeting on 11<sup>th</sup> September at Appendix 1 and Exempt Appendix 2

## **26 RISK MANAGEMENT ANNUAL REVIEW**

The Investments Manager introduced this report to the Committee. He explained that monitoring of the Risk Management Framework has been delegated to the Investment Panel who monitor the collateral adequacy of the pooled vehicle that contains the strategies, the performance of the strategies and the performance of the manager, Blackrock.

He said that at its meeting on 11 September 2020, the Panel reviewed each of the Risk Management Strategies and considered whether any changes should be recommended to Committee.

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

The Committee **RESOLVED** to:

- i) Note Mercer's report reviewing the strategies and collateral position
- ii) Agree the Panel's recommendation to maintain the existing trigger framework for the LDI strategy
- iii) Agree the Panel's recommendation that the inflation hedge be reinstated outside of the trigger framework to the level it was prior to the restructure

that took place in March, and to further examine the implementation of restoring the hedge, then consider further increasing the hedge following the outcome of the RPI reform consultation, delegating these actions to Officers and Mercer.

There was one abstention from a member of the Committee.

## **27 INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 30 JUNE 2020)**

The Investments Manager introduced this report to the Committee. He informed them that the key points from the funding level analysis were as follows.

- The funding level increased from 84% to 92% over the quarter to 30 June 2020. Based on investment returns and net cashflows into the Fund, the deficit was estimated to have recovered over 2Q20, from £864m to £420m.
- The increase in the funding level occurred as the value of the assets rose by more than the present value of the liabilities over the period.

He explained that the Fund's assets increased by £489m (c.10.9%) over the quarter ending 30 June 2020 giving a value for the Fund of £4,955m and that the Fund's currency hedge detracted -0.1% over the quarter.

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

## **28 PENSION FUND ADMINISTRATION**

The Pensions Manager introduced this report to the Committee. He informed them that updated advice and guidance for scheme administrators has been received from the Pensions Regulator as the COVID-19 pandemic continues to evolve. He added that whilst the prioritisation of critical administration work to support scheme members by focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases remains, administrators are also reminded of their responsibility to maintain other administrative processes.

He stated that officers have completed work to reconcile data returns ahead of the statutory ABS exercise. He added that 94% of all active member statements were issued ahead of the 31<sup>st</sup> August deadline and that work is now underway to assess requirements for the provision of statutory Pension Saving Statements.

He said that the I-Connect onboarding project was still suspended pending recruitment of the I-Connect team and that a recruitment project to fill vacancies across the administration teams had commenced in September 2020.

Charles Gerrish asked how the recruitment process would be managed with Covid-19 restrictions still in place.

The Pensions Manager replied that it would take place over a period of 6-8 months and would be closely controlled to ensure that adequate training was in place. He added that the team had been under resourced for some time.

Shirley Marsh-Hughes commended the current team for doing a sterling job in the current climate. She asked if there was a back-up plan if the correct staff can't be found.

The Pensions Manager replied that outside help could be brought in to help if necessary for specific projects or larger pieces of work.

Shirley Marsh-Hughes asked how staff were coping with working from home.

The Pensions Manager replied that it was beginning to take its toll on some staff, but that there are support mechanisms in place. He added that regular health checks are undertaken with staff that include discussions on mental health.

The Head of Business Finance & Pensions added that we were moving into uncharted territory with the pandemic and that he expected working from home through the Winter to be difficult. He said that the management team have been working together to try to maintain morale.

He stated that work would be outsourced where possible and warned that some areas of performance may deteriorate in the coming months.

He thanked all staff for doing a great job.

The Pensions Manager highlighted the following information from the report.

#### McCloud Judgement

He said that on 16 July 2020, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS. He explained that in summary the consultation proposes that qualifying members, all who were active in 2008 scheme on 31<sup>st</sup> March 2012 and accrued benefits in the 2014 scheme without a disqualifying break, would be protected by the application of a revised underpin which will be applied retrospectively for those who have already left the scheme. He said that the consultation runs until 8th October 2020 and we are currently in the process of formulating a response.

#### Public Sector Exit Payments Cap

He informed the Committee that on 21 July 2020, HM Treasury published the Government's response to the consultation on restricting exit payments in the public sector. He added that this was followed by the publication of draft regulations which include a list of employers who will be covered by the cap, which is set at a total of £95,000. He said that exit payments include redundancy payments, severance payments, pension strain costs and other payments made as a consequence of termination of employment.

He stated that the Regulations will need to be approved by both houses of parliament and will come into force 21 days after that process is complete. He added that we understand it is the intention that the cap will be in force by the end of the 2020 calendar year.

The Committee **RESOLVED** to note:

- i) Fund and Employer performance for the period to 31st August 2020
- ii) The current position regarding the developments that could affect the administration of the Fund.
- iii) The updated Risk Register and actions taken

## **29 BUDGET & CASH FLOW MONITORING**

The Group Manager for Funding, Investment & Risk introduced this item to the Committee. She explained that the forecast for the year to 31 March 2021 is for expenditure to be £178,000 below budget.

She informed the Committee that within the directly controlled Administration budget expenditure is forecast to be £178,000 under budget. The forecast reduction in directly controlled expenditure is related to salaries, in particular delays in filling vacant posts.

She stated that in the part of the budget that is not directly controlled, it is likely that there will be an overspend in compliance and investment governance costs. She explained that this overspend will be as a result of the additional advisory work required relating to the pandemic, regulatory changes and investment projects agreed since year end.

She said that an update will be provided at the December meeting once the workplan has been fully reviewed.

The Committee **RESOLVED** to note:

- i) The administration and management expenditure incurred for 4 months to 31 July 2020.
- ii) The Cash Flow Forecast at 31 July 2020.
- iii) The draft statement of Going Concern for the pension fund.

## **30 PENSION BOARD ANNUAL REPORT**

The Pensions Manager introduced this report to the Committee. He informed them that the Local Pension Board Annual Report summarises the Board's establishment and activities over the past 12 months and briefly looks forward to the proposed work plan for the forthcoming year.

He added that the Annual Report will be available on the Fund’s website and also be referenced in the Annual Report of the Avon Pension Fund which will in turn be submitted to Full Council.

Councillor Paul May asked, in terms of governance, if the report would be submitted to the other Councils that used to be within Avon.

The Head of Business Finance & Pensions replied that he believed this was the case, but that he would check on behalf of the Committee.

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

**31 WORKPLANS**

The Governance & Risk Advisor introduced this item to the Committee.

The Committee **RESOLVED** to note:

- i) The quarterly monitoring report for the Service Plan
- ii) The Committee & Investment Panel work plans and training programme for the relevant period

The meeting ended at 4.35 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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**BATH AND NORTH EAST SOMERSET**

**PENSION BOARD**

Friday, 13th November, 2020

**Present:-** Nick Weaver (Chair), Helen Ball (Member Representative), Steve Harman (Employer Representative), Mark King (Member Representative), and Tony Whitlock (Employer Representative)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Jeff Wring (Service Director - One West), Geoff Cleak (Pensions Manager), Carolyn Morgan (Governance and Risk Advisor) and Kathryn Shore (Technical and Compliance Advisor)

**Chair, Avon Pension Fund Committee:** Councillor Bruce Shearn

**1 WELCOME & INTRODUCTIONS**

The Chair, members of the Board and officers introduced themselves.

**2 APOLOGIES FOR ABSENCE**

Pete Sloman (Employer Representative) and David Yorath (Member Representative) had sent their apologies to the Board.

**3 DECLARATIONS OF INTEREST**

There were none.

**4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

**5 ITEMS FROM THE PUBLIC**

There were none.

**6 ITEMS FROM MEMBERS**

There were none.

**7 MINUTES OF PREVIOUS MEETING - 28TH NOVEMBER 2019**

The Board approved the minutes of the meeting held on 28<sup>th</sup> November 2019 as a correct record.

## 8 LGPS REGULATORY UPDATE

The Technical & Compliance Advisor introduced this report to the Board, a summary is set out below.

### HMT Public Sector Exit Payments Cap / MHCLG Consultation on Further Reform to Exit Payments

The government first consulted on plans to cap exit payments in the public sector in 2015 and subsequently launched a further consultation in April 2019.

- A maximum exit payment of £95,000 which was to apply to a wide range of public sector employers, however, excluding some LGPS employers such as Universities and Colleges.
- The cap was to include the value of any early retirement strain costs payable as a result of the exit.

In July 2020, the Government published its response to this consultation, confirming their intention to proceed with the implementation of the cap which remained set at £95,000 with no intention for this amount to be index linked going forward.

On 7 September 2020, MHCLG launch their own consultation on the changes required to the LGPS regulations to accommodate the cap, but also proposals for further reforms to exit payments for the LGPS only, which are:-

- The actual pay used in severance calculations will be limited to £80,000;
- The maximum severance (including statutory redundancy pay) will be limited to 3 weeks' pay per year of service or 15 months' pay, whichever is the lower
- The amount available for any strain cost will be reduced by the statutory redundancy payment in all cases

On 15 October 2020, the regulations to implement the £95k cap, across the whole of the public sector, were signed and came into force on 4 November 2020. However, the LGPS amendment regulations required to implement the £95k cap are not likely to be implemented before 2021.

This leaves us in a position of legal uncertainty from the 4 November 2020 until such time as the LGPS amendment regulations come into force. This is due to the discrepancy between the obligations on scheme employers under the £95k Cap Regulations to limit exit payments, including pension strain, to £95,000 and the requirement for administering authorities to pay a fully unreduced pension to a scheme member who is made redundant over the age of 55 under existing LGPS regulations.

In Oct 2020, a letter was sent from Luke Hall, the Local Government minister, to all LGPS administering authorities recommending a course of action to take in the interim period. The Scheme Advisory Board also published its legal advice together with a commentary for LGPS administering authorities and scheme employers. APF are currently obtaining legal advice on the best course of action to take in the interim

period and we have also been in talks with the Actuary regarding strain cost factors and await their formal recommendation on any changes required to the factors used to calculate pension strain.

The Chair asked if there were any governance issues for the Board to consider.

The Head of Business Finance & Pensions replied that each employer would have to set their own policies to take account of these changes and therefore the Fund would have to act on their interpretation. He added that he expected some claims to come forward and that the legal advice the Fund receives would be very important.

### McCloud and Sargeant Court Case

This case concerns the transitional protections provided to older members of the judges and firefighter pension schemes following their reform in 2015 as part of the public sector pension scheme changes.

In July 2019, the Chief Secretary to the Treasury announced in a written statement that 'the government believed that the difference in treatment will need to be remedied across all public sector schemes, including the LGPS'. This is likely to have a significant impact on the administration team.

In July 2020, MHCLG launched a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS. APF submitted a response to this consultation, which closed on 8 October 2020, and we await their response which is expected in early 2021.

In the meantime, APF will be looking to carry out a data collection exercise with their employers to ensure any additional hour change and service break data is available for members that will be covered by the changes, as this data will be required to apply the remedy once it has been decided.

### LGPS SAB Cost Management Process

In September 2018 HM Treasury announced that as a result of scheme valuations all public service pension schemes, including the LGPS had breached the 2% cost cap floor which would lead to member benefits improvements. However, the SAB has its own cost management which allowed any changes to benefits to be taken into account before the HM Treasury process begins.

In January, the Government announced a pause in the cost cap process due to uncertainty caused by the McCloud and Sargeant court ruling on elements of the 2014/15 scheme reforms and subsequently the SAB confirmed that they would also be pausing their own cost management process until the effects of the outcome of this case is clear.

Therefore, scheme changes were not put in place for 1 April 2019 and the LGPS SAB Cost Management Process continues to be paused until the effects of the outcome of the McCloud and Sargeant Judgement is clear. When this process resumes, if changes are still required, this will have a significant impact on the administration team.

On 16 July 2020, the Government announced that the cost control mechanism pause would now be lifted, for the unfunded public sector schemes, and the process restarted taking into account the costs of the McCloud remedy. The SAB further agreed that the LGPS cost cap arrangement should also be un-paused but no action would be taken until the HMT direction, on how McCloud costs are to be considered, is published and the outcome of the LGPS McCloud consultation is known in early 2021.

The Chair asked how things were progressing with the provision of any new software regarding the proposed changes.

The Pensions Manager replied that they were in discussion with their software provider on this matter and that developments were moving in the right direction. He added that APF also administer the Fire Service Pension on behalf of Avon Fire & Rescue Service, with just under 1,000 members, and that this was likely to be a more complex exercise.

The Board **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'.

## **9 FUND & EMPLOYER PERFORMANCE**

The Pensions Manager introduced this report to the Board, a summary is set out below.

With the UK lockdown in place from 23rd March, the initial response from the Fund was focussed on communications, ensuring all staff officers had capability to undertake business operations remotely from home.

Direct engagement with all key employers was established and is ongoing to review and monitor business as usual capability. All other employers have been surveyed to establish BAU capabilities with no significant issues being reported.

### Fund Performance against SLA – KPI's

Targets were being met in the main on the following three categories: Retirement (from Active), Retirement (from Deferred) and Deaths.

The Chair commented that he thought that the target of 10 days for Transfers In / Out was quite demanding. He asked for any comments on this matter.

The Pensions Manager replied that some cases can be complex and can take time to review. The timely progress of transfer cases can be adversely impacted where information is required from an external third party.

Helen Ball asked what percentage of people use the self-service model for enquiries.

The Pensions Manager replied that he believed it was around 30% and that they were looking to increase usage where possible.

#### APF Completed Cases - Performance against Statutory Legal Deadline

Figures in this respect were really good on the whole. Only Transfers In / Out were not flagged Green and this was partly due to the delay in printing and posting requirements as officers had to arrange to go into the office to complete this.

The Chair asked how recruitment into the service was going.

The Pensions Manager replied that a three phase recruitment plan was ongoing and that this would help as the Administration Team were currently down by 11 posts.

The Head of Business Finance & Pensions added that there was a difficulty in finding and retaining staff and that he felt whilst working under current restrictions a drag on performance would remain.

Steve Harman asked if a general view of how staff are feeling about working at home could be given.

The Pensions Manager replied that he felt that it had affected performance but was pleased to report that overall sickness had not increased. He added that he felt the longevity of the situation was taking its toll on staff mental health and wellbeing.

Steve Harman asked for the Board's appreciation of their work to be fed back to staff.

The Board **RESOLVED** to note the Fund and Employer performance for the three months to 30th September 2020.

## **10 STATUTORY ANNUAL REQUIREMENTS**

The Pensions Manager introduced this report to the Board, a summary is set out below.

The introduction of the Pensions Act 2013 extended the powers of the Pensions Regulator (TPR) to public sector schemes from 1 April 2014. The Pension Regulator introduced the Code of Practice 14 for the administration of public sector schemes in 2015. This, amongst other things, addressed the issue of annual benefit statements to members.

In preparation the Fund must undertake an annual exercise to reconcile member data supplied by employers at each 31st March year end. There are 432 active employers of which 269 provide member data digitally to the Fund on a monthly basis. The remaining 163 employers continue to provide data annually.

For the purpose of data accuracy, the digital monthly employer returns undergo a reconciliation process on a continuous basis. Where the employer annually

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

Officers completed work to reconcile data returns ahead of the statutory Annual Benefit Statements (ABS) exercise. Summarily, 94% of 36,189 active member statements were issued ahead of the 31st August deadline.

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

## **11 BREACHES LOG**

The Governance & Risk Advisor introduced this report to the Board, a summary is set out below.

Regulatory breaches are breaches of the regulations or standards as set out in the Administration Strategy and if Material need to be reported to the Pensions Regulator (TPR) as set out in the Breaches Policy. In addition to the requirement to report Material breaches to TPR, the Pensions Manager will formally report all breaches to the Avon Pension Fund Committee and the Pension Board on a quarterly basis.

### 5 Year Refund Cases

The 2013 LGPS regulations require schemes to pay a refund of contributions within 5 years. Failure to complete payment is classified as a regulatory breach and is required to be reported to the pensions committee and local pension board. The National Technical Group has previously made a recommendation to the Scheme Advisory Board (SAB) to remove the requirements to pay a refund of contributions within five years under the 2013 regulations. The SAB have agreed to proceed with this regulatory change and are in the process of making recommendations to MHCLG.

A notifiable breach must be reported to the Information Commissioner's Office (ICO) within 72 hours after becoming aware of it. If it takes longer than this, reasons for the delay must be provided.

All breaches must be reported to Banes Data Protection Officer (DPO) within 24 hours of the incident using the incident reporting template. The DPO will advise if the incident meets the criteria for reporting to the ICO and also makes recommendations on future preventative actions.

Procedures are in place for staff to follow and regular training takes place to ensure that everyone has a full understanding of data protection and the reporting procedure for breaches.

Steve Harman commented that from looking at the Breaches Log it was hard to tell if these figures were good in comparison to other years or other Funds. He asked if in a future report this information could be included.



The Governance & Risk Advisor replied that the figures had been consistent across the last two years. She added that she would look to add the information requested into future reports.

The Chair asked if she could expand on the data breaches that occurred and the subsequent measures taken.

The Governance & Risk Advisor replied that only one incident had been reported to the Information Commissioner's Office (ICO) in 2019 and that this had related to IConnect. She added that an employer had uploaded an extract and in doing so the first line of the address of 71 members had become incorrect.

She said that this incident led the Fund to set up the IConnect Team and the implementation of further controls.

She informed the Board that four incidents had been reported to Information Governance in 2019. She explained that twice data was sent to an incorrect employer (Globalscape) and that twice data was sent to an incorrect member.

She said that a checking step had been added to the Globalscape procedure and that more training had been given to staff.

She informed the Board that three incidents had been reported to Information Governance in 2020. She stated that 2 pensioner payslips were sent to the incorrect person via the Toplink – Print Service, 1 data set was sent via Secure Share to the wrong recipient and 1 member data set was sent to an old address.

She explained that a review of Toplink's procedures has been carried out and that the machine that malfunctioned has been decommissioned. She added that training & education of staff members has been carried regarding the other two incidents.

The Chair commented that this was something the Board could look at when discussing the Digital Strategy in the early part of 2021.

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

## **12 RISK MANAGEMENT**

The Governance & Risk Advisor introduced this report to the Board, a summary is set out below.

The risk management process has been reviewed and updated in line with CIPFA guidance, with the introduction of a more robust process for identifying & managing risks. All risks have been reviewed and re-evaluated using a risk evaluation form. Each risk has been allocated a risk owner to monitor the risk and implement mitigation measures. The scoring system used is in line with the B&NES corporate guidelines.

The Risk Register is reviewed every quarter by the pension management team. All risks with a review date are re-evaluated using the evaluation form and updates agreed and made to the risk register. Any new risks identified or

changes to any other risks are also considered and the necessary amendments made.

She confirmed that both the introduction of the exit payment cap (R53) and Brexit (R55) were on the Risk Register.

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

### 13 PENSION BOARD - WORKPLAN & TRAINING PLAN

The Governance & Risk Advisor introduced this report to the Board, a summary is set out below.

In developing a training plan Board Members should reflect on their own statutory requirements as set out in previous reports. In summary, Board Members should have a breadth of knowledge and understanding that is sufficient to allow them to understand fully any professional advice the Board is given. They should also be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision relating to the Board's duty to assist the Avon Pension Fund.

In developing a work plan the Board should reflect the need to maintain a balance between building the knowledge and understanding of Board Members along with delivery of the statutory obligations of the Board.

Helen Ball commented that she had attended a number of courses / forums throughout the year and that a lot of information had been gained through good questioning at these sessions. She added that the informal Board sessions had also been useful.

The Board **RESOLVED** to note the report and recommends high level training needs through 2020/21.

The meeting ended at 4.00 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	11 December 2020	AGENDA ITEM NUMBER
TITLE:	Funding Strategy Statement - Policy updates	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Draft Policy - Spreading Exit Payments and Deferred Debt Agreements		
Appendix 2 – Draft Policy - Flexibility in Employer Contributions		
Appendix 3 – Extract of relevant Regulations		

## 1 THE ISSUE

- 1.1 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. For the Fund to implement these changes it must have a policy set out in its Funding Strategy Statement (FSS).
- 1.2 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. Any amendments required once the statutory guidance and guide is published in 1Q21 will be agreed by Officers in consultation with the Actuary. If there are any substantive changes in the principles, the policy will be brought back to committee for further consideration.
- 1.3 There will then be a short consultation with employers once the draft policies have been finalised.

## 2 RECOMMENDATION

**That the Committee:**

### 2.1 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**

### 2.2 **Delegates amending the draft policies following publication of the guidance, as necessary, to Officers having taken advice from the Scheme Actuary**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The FSS sets out the funding basis and related policies through which the Fund manages the scheme liabilities and payment of contributions by scheme employers (including on exit from the Fund).
- 3.2 Actuarial advice regarding the FSS and related policies is provided for in the annual budget.

### **4 REGULATORY CHANGES**

- 4.1 A number of regulatory changes came into force on 23 September 2020 (LGPS (Amendment No.2) Regulations 2020) but we are still waiting for statutory guidance (as well as a supporting guide from the SAB) before we can finalise our new policies which is currently expected to be issued in 1Q21. However, as these policies provide much needed flexibility to manage the liabilities, our intention is to implement them as soon as we can once the guidance is published rather than wait until the March committee meeting.
- 4.2 In addition, a short consultation with scheme employers will be conducted once the draft policies have been finalised after which the FSS will be updated with the new policies once they have been finalised. These policies do not alter the main principles of the current funding strategy but instead provide the Fund and employers with further flexibilities.
- 4.3 The policies have been drafted based on the Actuary's expectation of the guidance following initial indications from the MHCLG and SAB. It is proposed that any changes required to the draft policy once the guidance is issued will be made by Officers on the advice of the Actuary. We do not expect substantive changes will be required.

### **5 FLEXIBILITY FOR EXIT DEBT PAYMENTS AND DEFERRED DEBT AGREEMENTS - DRAFT POLICY**

- 5.1 The default position for exit payments has generally been that they are paid in full at the point of exit. However, the new regulations permit LGPS funds to develop policies that provide alternative options to employers (subject to a covenant assessment and consideration of security) as follows:
  - a) Allow the Fund and the employer to enter into an agreement which instead spreads the payment of the final exit debt calculated by the Actuary over an agreed period of time (the amounts and frequency of the payments in the payment plan will be agreed at the outset along with any early payment terms), or
  - b) The Fund may enter into a deferred debt arrangement (DDA) with a scheme employer. This allows the employer to defer its obligation to make an exit payment and continue to make 'deficit' (secondary rate) contributions to the Fund. Contribution requirements will continue to be reviewed as part of each actuarial valuation under this option, which is essentially an employer continuing ongoing participation, but with no contributing members. The Fund or employer can terminate the DDA and settle a revised exit debt.
- 5.2 Current regulations which require the exit debt to be paid in full on exit, restricts the ability of employers to leave the Fund in an ordered and affordable manner. This is especially the case for those in a weak financial situation. The new Regulations provide greater flexibility to manage this debt.

- 5.3 The Fund can only enter into these arrangements with an exiting scheme employer when the last active member for that employer leaves the scheme (voluntarily or otherwise), if the FSS includes the Fund's policy on the arrangements, and where the Fund has consulted the exiting scheme employer and has taken advice from the scheme Actuary as well as any other specialists as appropriate.
- 5.4 Appendix 1 sets out the draft policies for these flexibilities for the Committee to consider. The policies have been designed to strengthen the Fund's ability to manage employer liabilities, ensuring there is no detriment to the solvency of the Fund. The drafted policy will form part of Appendix C of the FSS.
- 5.5 Appendix 3 includes the extract of the relevant regulations.

## **6 FLEXIBLE CONTRIBUTIONS POLICIES - DRAFT POLICY**

- 6.1 These new regulations permit contribution rates to be adjusted between valuations. Currently the contribution rates set out in the valuation report stay in place until the next valuation except in limited circumstances or where an employer exits the Fund. These regulations allow changes to be made before the next valuation if they meet the criteria.
- 6.2 Such a revision to contribution rates is only permitted if the Fund's policy is set out in the FSS and one of the following apply:
- a) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
  - b) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
  - c) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review (and point (a) or (b) also applies)
- 6.3 Appendix 2 sets out the draft policy for the Committee to consider. The policy ensures that any changes will only be due to significant changes that create additional risk to the Fund or employer. The new policy will be a new section within the FSS.
- 6.4 Appendix 3 includes the extract of the relevant regulations.

## **7 NEXT STEPS**

- 7.1 Once the statutory guidance (and the SAB guide) is published, the draft policies will be finalised. If the guidance is in line with expectations and no substantive changes in principles are required, the policies will be consulted on with employers. Following the consultation, the FSS will be updated.
- 7.2 If substantive changes are required or feedback from employers requires further consideration by the Committee the policy/s will be brought back to the March meeting.

## **8 RISK MANAGEMENT**

- 8.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has appropriate investment and funding strategies in place that are regularly

monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8.2 The Fund monitors the funding position regularly as well as reviewing the strength of the employer covenant to ensure liability risks are proactively managed.

8.3 The Funding Strategy Statement is the main statutory document that addresses the management of the funding risks identified in the Risk Register.

## **9 CLIMATE CHANGE**

9.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **10 EQUALITIES**

10.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **11 OTHER OPTIONS CONSIDERED**

11.1 None.

## **12 CONSULTATION**

12.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Liz Woodyard, Group Manager, Funding, Investments & Risk: 01225 395306
<b>Background papers</b>	LGPS Regulations and Government Guidance Avon Pension Fund FSS (2020)
<b>Please contact the report author if you need to access this report in an alternative format</b>	

**ADDITIONAL WORDING TO BE INCLUDED IN APPENDIX C OF THE  
FUNDING STRATEGY STATEMENT FOR CONSULTATION WITH  
EMPLOYERS**

## **APPENDIX C - TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS**

### **POLICY IN RELATION TO THE FLEXIBILITY FOR EXIT DEBT PAYMENTS AND DEFERRED DEBT AGREEMENTS (DDA)**

The default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt arrangement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be included in the contribution plan or exit debt payment.

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated [to be confirmed].

### **POLICY FOR SPREADING EXIT PAYMENTS**

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to [3] months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
  - a. The spreading period that will be adopted (this will be subject to a maximum of [5] years).
  - b. The initial and annual payments due and how these will change over the period
  - c. The interest rates applicable and the costs associated with the payment plan devised
  - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
  - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
  - f. The views of the Actuary, covenant, legal and any other specialists necessary
  - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
  - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

## **EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS**

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreements” (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request financial information from the employer including annual accounts, management accounts, budgets, cashflow forecasts and any other relevant information showing the expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement



was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to [3] months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board's separate guide. As part of this, the following will be considered and agreed:
  - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis.
  - The investment strategy that would be applied to the employer e.g. the lower risk strategy or otherwise which could support the arrangement.
  - Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt
  - What the updated secondary rate of contributions would be required up to the next valuation
  - The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
  - The advice of the Actuary, covenant, legal and any other specialists necessary
  - The responsibilities that would apply to the employer while they remain in the Fund
  - What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions
  - The circumstances that would trigger a cessation of the arrangement leading to an exit payment (or credit) becoming payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring
  - Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Arrangement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the triggers are met.
6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer as part of the arrangements and contribution requirements.

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## DRAFT OUTLINE POLICY (TO BE INCLUDED IN THE FSS FOR CONSULTATION WITH EMPLOYERS)

# REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

In line with the Regulations that came into force on 23<sup>rd</sup> September 2020, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them and that employer would be required to pay the costs of any review.

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation although changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions.

For the avoidance of doubt any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the implementation of the rates from the latest actuarial valuation, unless in exceptional circumstances.

## SITUATIONS WHERE CONTRIBUTIONS MAY BE REVIEWED

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

- 1) **Significant changes in the employer's liabilities**

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - i. Restructuring of an employer
  - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
  - iii. A bulk transfer into or out of the employer
  - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements, large number of withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than [5%] of the total liabilities. In some cases this may mean there is a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities both in terms of the Primary and Secondary rate of contributions.

## 2) **Significant changes in the employer's covenant**

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.
- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this).
- c) Where an employer exhibits behavior that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet its obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, certain employers will be required to agree to notify the Administering Authority of any material changes. These employers will be notified separately and the Administering Authority will set out the requirements.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position both on an ongoing and termination basis, allowing for changes in asset values to consider if the employer can meet its obligations.

## PROCESS AND POTENTIAL OUTCOMES OF A CONTRIBUTION REVIEW

Where one of the listed events occurs, the Administering Authority will notify the employer of the intention to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors. This also applies where an employer requests a review of the contributions and the employer will be required to confirm payment of the costs associated with the review prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (e.g. the higher risk, lower risk or termination strategy) in line with the Funding Strategy Statement.
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change

The review of contributions may take up to [3] months from initial consideration in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes.

**Avon Pension Fund**

**November 2020**

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## 1. Deferred Debt Arrangement - Regulations

### Amendment of the Local Government Pension Scheme Regulations 2013

3. In regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained)(1)—

(a) after paragraph (7) insert—

“(7A) An administering authority may enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (“a deferred debt agreement”).

(7B) An administering authority may enter into a deferred debt agreement with an exiting Scheme employer where—

- (a) the last active member in respect of that Scheme employer has left the Scheme;
- (b) the funding strategy mentioned in regulation 58 (funding strategy statements) has set out the administering authority’s policy on deferred debt agreements; and
- (c) the administering authority has—
  - (i) consulted the exiting Scheme employer; and
  - (ii) had regard to the views of an actuary appointed by the administering authority.

(7C) Where a deferred debt agreement has been entered into under paragraph (7A)—

- (a) the exiting employer becomes a deferred employer on the date specified in the agreement;
- (b) the deferred employer must—
  - (i) meet all requirements on Scheme employers except the requirement to pay the primary rate of contributions as determined under regulation 62(5) (actuarial valuations of pension funds); and
  - (ii) pay the secondary rate of contributions as determined under regulation 62(7) as revised from time to time following an actuarial valuation until the termination of the deferred debt agreement.

(7D) A deferred debt agreement must include express provision for it to remain in force for a specified period, which may be varied by agreement of the administering authority and the deferred employer.

(7E) A deferred debt agreement terminates on the first date on which one of the following events occurs—

- (a) the deferred employer enrolls new active members;
- (b) the period specified, or as varied, under paragraph (7D) elapses;
- (c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- (d) the administering authority serves a notice on the deferred employer that the administering authority is reasonably satisfied that the deferred employer’s ability

to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or

(e) an actuary appointed by the administering authority assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due under paragraph (1) if the employer had become an exiting employer on the calculation date.

(7F) Paragraph (7E)(c) does not apply where the administering authority serves a notice on the deferred employer that the administering authority is satisfied that the event would not be likely to significantly weaken the deferred employer's ability to meet the contributions payable under the deferred debt agreement in the next 12 months.

(7G) On the termination of a deferred debt agreement under paragraph (7E) a deferred employer becomes an exiting employer in relation to the relevant fund for the purposes of this regulation.”.

## **2. Flexibility in contribution rates**

### **Amendment of the Local Government Pension Scheme Regulations 2013**

4. After regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained), insert—

#### **“Revision of rates and adjustments certificate: Scheme employer contributions**

**64A.** (1) An administering authority may obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) showing any resulting changes to the contributions of a Scheme employer or employers where—

(a) the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on amending contributions between valuations; and

(b) one of the following conditions applies—

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

(2) In revising the certificate, an administering authority must—

(a) consult the Scheme employer or employers; and

(b) have regard to the views of an actuary appointed by the administering authority.



Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	11 December 2020	AGENDA ITEM NUMBER
TITLE:	Brunel Pension Partnership – Update on pooling	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Project plan for transition of Avon’s assets to Brunel portfolios Exempt Appendix 2 – Risk Register for transition of Avon’s assets to Brunel portfolios Appendix 3 – APF Risk Dashboard March 2019 Appendix 4 – Brunel Oversight Board Draft Minutes Exempt Appendix 5 – Transition costs & savings update		

## 1 THE ISSUE

- 1.1 This report outlines the progress on pooling of assets covering governance, investments and operational/financial aspects of the pool.
- 1.2 The Investment Panel reviews specific investment aspects at its regular meetings.
- 1.3 The Fund has its own project plan for transitioning its assets to Brunel, consistent with the Brunel project plan. The Fund's plan identifies governance and risks for the Fund and Committee.
- 1.4 A verbal update will be provided at the meeting.

## 2 RECOMMENDATION

**That the Committee notes:**

- 2.1 the progress made on pooling of assets.
- 2.2 the updated project plan for the transition of assets.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The management fees that Avon will pay to Brunel are included in the budget for 2020/21. They have been calculated in line with the current pricing policy. The fees and pricing policy have been approved by the Shareholders.

### **4 PROGRESS UPDATE**

#### **4.1 Governance:**

- a) Brunel Oversight Board (BOB) met in December; the minutes of this meeting are not yet available; September draft minutes are in Appendix 4. The next BOB meeting is in January.
- b) The Client Group (CG) meets monthly with mid-month update calls as required. Five sub-groups work with Brunel on specific aspects of the services to be delivered. Sub-group activity and output is discussed at each meeting/call.
- c) Quarterly performance and KPI reporting is reviewed by BOB consisting of
  - (i) RAG reporting on agreed metrics and commentary on action taken by Brunel if there is underperformance or areas of concern for each portfolio,
  - (ii) Performance of each of the internal teams (Compliance & Risk, Investments, Operations) against their KPIs.

CG reviews each portfolio in more depth on a quarterly basis and will highlight any issues/ areas of concern to BOB. Any issues raised by BOB will be reported back to committee (verbal update due to timing). 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.
- d) David Vickers has been appointed as CIO and will take up the post in January.
- e) Client Group and Brunel are reviewing the governance arrangements. The objective of the review is to ensure communications between the relevant parties are effective and arrangements are updated for regulatory/legal changes. BOB have been updated as to progress. Any changes to the governance arrangements will require shareholder approval.
- f) A verbal update of the December BOB meeting will be given at the meeting.

#### **4.2 Investments:**

- a) 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.
- b) As at 30/09/20 Brunel managed over £19bn of assets on behalf of its clients.

- c) Avon's project plan for the transition of its assets (see Exempt Appendix 1) is based on the timeline agreed by Client Group and Brunel for transitioning the assets. The slight delay in the transition plan due to COVID-19 has not materially affected the overall transition timeline for Avon. The timing of transitioning of assets is continuously reviewed by Brunel and CG to ensure client priorities are considered. Actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Note that the plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. Avon will only be responsible for its share of the transition costs relating to the portfolios the Fund invests in.
- d) Avon's assets that have transitioned now total £3.19bn (at 31/09/20). In addition, Brunel invests £109.3m in secured Income and £40.2m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt has yet to commence.

<b>Brunel portfolio</b>	<b>Value at 30/09/20</b>	<b>Transitioning Mandates / Managers</b>	<b>Date transitioned</b>
Passive Equities	£616.9m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£0m	UK Equities - TT International	Nov 2018
Emerging Market Equities (EM)	£246.6m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£358.0m	Global Equities - Schroders	Nov 2019
Risk Management Strategies	£981.9m	Blackrock LDI and EPS	Oct 2019
Diversified Return Funds	£493.1m	Diversified Growth Funds – Pyrford, Ruffer (partial)	July 2020
Sustainable Equities	£494.0	Jupiter UK Equities, Jupiter Global Sustainable Fund, Brunel UK Equities, Brunel Global High Alpha (partial)	September 2020

- e) Brunel's quarterly investment performance and stewardship activity reports are now included in the Investment Panel meeting paper; Panel will highlight any issues or areas of concern via its normal reporting (covering all our managers) to Committee. The portfolios are all in line with expectations.
- f) Avon's project plan includes a Risk Register (see Exempt Appendix 2) of risks specific to the transition for Avon. Given Avon is nearing completion of its transition, the risks have reduced.

#### 4.3 Operational/Financial:

- a) Brunel provides BOB with a business update at each meeting which includes high level monitoring of the budget and the transition plan. CG monitors the

budget variances in detail on a quarterly basis, raising any issues with BOB. The projected outturn for current year is a small underspend (current estimate c. £500k).

- b) Following Avon's transition to each portfolio, the Committee is provided with an update on fee savings and transition costs; see Exempt Appendix 5 for the Diversified Return Fund analysis.

4.4 There are no changes to the Avon Brunel Risk dashboard (see Appendix 3).

## **5 BRUNEL WORKING GROUP**

5.1 The Brunel Working Group met ahead of the December BOB meeting.

## **6 RISK MANAGEMENT**

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **7 CLIMATE CHANGE**

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **8 EQUALITIES**

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **9 OTHER OPTIONS CONSIDERED**

9.1 None.

## **10 CONSULTATION**

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
<b>Background papers</b>	Client Group and BOB papers
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## **Access to Information Arrangements**

### **Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA 1376/20

Meeting / Decision: Avon Pension Fund Committee

Date: 11 December 2020

Author: Liz Woodyard

#### **Report Title: Brunel Pension Partnership – Update on pooling**

**Exempt Appendix 1** – Project plan for transition of Avon's assets to Brunel portfolios

**Exempt Appendix 2** – Risk Register for transition of Avon's assets to Brunel portfolios

Appendix 3 – APF Risk Dashboard March 2019

Appendix 4 – Brunel Oversight Board Minutes

**Exempt Appendix 5** – Transition costs & savings update

The Appendices to the Report contain exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption:

3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

#### **PUBLIC INTEREST TEST**

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and would prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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## Brunel – Avon Pension Fund Risk Dashboard

### Governance & Legal

Risk Area	Aspects	Status
Council sign off of Full Business Case	<ul style="list-style-type: none"> <li>1Q2017</li> </ul>	Complete
Key legal documents	<ul style="list-style-type: none"> <li>Articles of Association, Shareholders Agreement, Services Agreement, Pricing Policy, Remuneration Policy, Exit Policy, Funding Policy</li> </ul>	Completed; Limited review in progress
Avon representation	<ul style="list-style-type: none"> <li>Committee representative on Oversight Board</li> <li>Officer representatives on Client Group</li> </ul>	Complete

### People & Resources

Risk Area	Aspects	Status
Staffing implications	<ul style="list-style-type: none"> <li>Brunel Staff recruitment</li> <li>Resourcing of APF team               <ul style="list-style-type: none"> <li>Governance and Risk Manager</li> <li>Senior Investment Officer</li> </ul> </li> </ul>	Amber  Complete Amber – in progress

### Processes and providers

Risk Area	Aspects	Status
Relationship management	<ul style="list-style-type: none"> <li>Identify all contract and specification changes (advisors, managers, custodian during transition)</li> </ul>	Green - Ongoing
Custody contract	<ul style="list-style-type: none"> <li>Transitioned to new custodian Dec 2017</li> </ul>	Complete
Client Group activity (CG)	<ul style="list-style-type: none"> <li>Portfolios</li> <li>CG sub groups to focus on key areas:               <ul style="list-style-type: none"> <li>Financial</li> <li>Operations</li> <li>Investments</li> <li>Responsible Investing</li> <li>Strategic &amp; Governance</li> </ul> </li> </ul>	Green Avon is represented on the financial, investments and RI subgroups
Internal process /policy change	<ul style="list-style-type: none"> <li>Cash Management, Rebalancing, Custody processes, Investment management and reporting</li> </ul>	Green – in progress
Transition of assets	<ul style="list-style-type: none"> <li>Transition plan</li> <li>Monitor transition plan, transitions, risks and costs/savings</li> <li>Avon plan for transitioning legacy assets</li> </ul>	Green – on track Green – Avon project plan; Brunel providing reports to capture costs and analyse transitions to Brunel portfolios Amber – due late 2020/21

### Budget & expenditure

Risk Area	Aspects	Status
Clarity on budget agreed as part of Original Business Case	<ul style="list-style-type: none"> <li>Budget update reported to Oversight Board and Client Group</li> <li>2020/21 Budget &amp; 3 year Business Plan agreed by Shareholders</li> </ul>	Green – ongoing
APF budget for Brunel costs	<ul style="list-style-type: none"> <li>Investment and operational costs of Brunel included in APF 2020/21 budget</li> <li>Governance costs of supporting Client side work included separately</li> </ul>	Green – Brunel investment management fees in fee budget; CG support in governance costs
Delivery of OBC objectives - costs/savings	<ul style="list-style-type: none"> <li>Will be monitored as part of client reporting suite</li> <li>Client Group to review costs against OBC</li> </ul>	Green – reporting includes actual costs vs. budget, transition costs & fee savings, investment performance Green – ongoing annually

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## Brunel Oversight Board Meeting Minutes

**Purpose:** To review Brunel/Client progress agree next steps

**Date and time:** Thursday 3<sup>rd</sup> September 2020, 10:30 – 12:35

**Location:** Microsoft teams

<b>Pension Committee Representatives</b>		
Bruce Shearn	Avon	
Tim Butcher	Buckinghamshire	
Derek Holley	Cornwall	
Ray Bloxham	Devon	
John Beesley	Dorset	
Robert Gould	EAPF	
Ray Theodoulou	Gloucestershire	Chair
Kevin Bulmer	Oxfordshire	Vice Chair
Mark Simmonds	Somerset	
Tony Deane	Wiltshire	

<b>Member representative observers</b>		
Andy Bowman	Scheme member rep.	
Ian Brindley	Scheme member rep.	

<b>Fund Officers and Representatives</b>		
Tony Bartlett	Avon	
Sean Johns	Cornwall	
Mark Gayler	Devon	
Craig Martin	EAPF	
Graham Cook	EAPF	
Paul Blacker	Gloucestershire	
Sean Collins	Oxfordshire	
Jenny Devine	Wiltshire	
Nick Buckland	Mercer - Client Side Executive	
Daniel Wilson	Mercer – Client Side manager	Minutes

<b><i>Brunel Pension Partnership Ltd</i></b>		
Denise Le Gal	Brunel, Chair	
James Russell-Stracey	Brunel, CSO	
Faith Ward	Brunel, CRIO	
Matthew Trebilcock	Brunel, CRD	
Joe Webster	Brunel, COO	
Laura Chappell	Brunel, CEO	
David Cox	Brunel, HoLM	
David Anthony	Brunel, HoF & CS	
Alice Spikings	Brunel, CRA	
Catherine Dix	Brunel, CRM	

[illegible]

	<p>SJ noted that the Ops group have discussed and reviewed how Brunel and managers' report breaches and the processes in place for how client group and funds are informed. It was concluded by the Operations sub-group that these systems and processes are robust and the group are satisfied.</p> <p>RT questioned what the processes are in place if a Fund or Brunel were dissatisfied with a manager and how difficult it would be to remove one. DC explained that it is relatively easy to remove a manager as Brunel are not contractually tied into a timeframe with a manager. DC explained that it would be a relatively quick process but the time needs to be taken to review any steps.</p> <p><u>Client Assurance Survey</u></p> <p>SJ presented the client assurance survey, he explained that the client representative from each fund had provided feedback and noted that the scheme member representatives would also have the opportunity to be involved next year. He explained that overall the feedback was good and helped with the production of the work-plan in appendix 4.</p> <p>TD requested comments from the CEO in response to the survey. LC explained that the report is quite encouraging given the number of issues that everyone at Brunel and the partnership collectively are working together to improve. She noted there is still a lot of work to do and the work plan that has been produced has been designed to reflect this.</p> <p>RT asked for clarity on the main areas of dissatisfaction. SC noted the main area of concern was around communications with shareholders and the client portal, he added that this was in the work plan.</p>	
5	<b>Budget Forecast</b>	
	<p>MG presented the Budget forecast update. He explained that this has been through FSG and the group are happy with what has been proposed.</p> <p>DA noted that the overall budget was £11m and Brunel are forecasting a £115k under-spend. DA noted that the largest under-spend is made up from £367k Private Markets, this is due to the current rate of transitions, cost from investment advisers and due-diligence have been less than expected. DA noted that due to the current uncertainty around private markets, these savings may not be realised as of yet.</p> <p>DA explained that there is an overspend forecasted on Compliance and Risk (£173k) as a result of not budgeting for maternity leave and also increased fees for legal advice and material around the current COVID pandemic.</p>	

	<p>DA noted that the forecast movement in net pension accounting liability was from £1.4m to £5.4m based on June 2020 position. This is due in part to the impact of bond yields along with membership experience but this figure will likely change at year-end.</p> <p>The pension re-charge agreement is being implemented to manage this pension situation so it does not significantly impact on Brunel's revenue and balance sheet and lead to additional invoices needing to be raised. This approach has been discussed at CG where approval was given by the representatives of each fund.</p> <p>The final documents are in the process of being signed off by each Fund.</p>	
6	<b>Brunel CEO Report</b>	
	<p>LC noted that Brunel have continued as normal throughout lockdown as previously expressed. She explained that they have completed a huge amount of work over this time.</p> <p>LC explained that in the BOB papers in Q1 they re-confirmed the objectives for the year. She explained for good governance, the board should set the objectives which should then be reviewed by the shareholders. She asked the group for any objectives anybody feel may be missing.</p> <p>DH queried whether someone can prepare a document or some wording in the reporting around Brunel's aim to out-perform the benchmarks. <b>LC confirmed that this can be incorporated in future.</b></p> <p>RB explained that his main concern was that as a leader in RI this should be emphasised more in Brunel's objectives. FW explained that climate change is the number 1 priority as shared by members of the Fund's committees. FW noted that they have been heavily involved in a number of coalitions around modern human slavery which has become ever more relevant during lockdown. FW also noted the Paris Aligned Portfolio and explained that Brunel are engaged in a number of consultations with investment managers to see what a Paris Aligned Portfolio looks like.</p> <p>LC noted that winning the sustainable investment award was a massive achievement for Brunel and the Funds as a partnership.</p> <p>RT explained that his Fund has received a communication from Extinction Rebellion. He explained that they are making a very big push for the Fund to remove all investments involved in oil and gas. He explained that there has been significant action from the Extinction Rebellion including interruptions to council meetings. Gloucestershire look to Brunel for support in response to these communications. FW commented that Brunel are very happy and able to support the Funds on this. FW noted that over the long</p>	Brunel



	<p>term there will be a piece of work produced by Brunel to support this. JB noted that he has every confidence that Brunel are doing everything they can do in this field. JB noted that any correspondence in the media needs to be in line with the message shared by all the other Funds.</p> <p>LC noted that one of the benefits to arise from the COVID environment has been the emphasis that climate change is a massive issue. The pressure has been applied to companies to make larger strides in improvements in this area. TD noted that (whilst remaining cognisant of the issues) the correct balance needs to be struck between RI integration and investment returns. FW explained that this is exactly what Brunel are trying to achieve and Brunel are trying to understand the appetite from the Funds</p> <p>LC provided an update on the CIO recruitment. She explained that there were 200 applications. SC and LW supported on the panel that interviewed candidates. She explained that they were able to select a candidate but cannot provide a name yet due to confidentiality. The group will be able to meet the new CIO in the near future.</p> <p>LC explained that Brunel are currently looking at new portfolios and increasing the product range. There will be a number of workshops over the next 18 months.</p> <p>KB noted that cyber security is a big concern given people are working from home. LC explained that given the business was built from scratch there has always been an element of working from home and this has not resulted in any issues to date at Brunel. LC noted that they have no immediate concerns over cyber security at Brunel but appreciated it was a wider issue to watch.</p> <p>DLG explained that cyber security is on their risk register and is discussed at meetings. DLG noted that as clients they have a lot of underlying data and with a lot of members being pensioners who are more vulnerable to cyber-attacks then this is a real risk and is monitored regularly by Brunel.</p> <p>RT asked about compliance in the new working from home environment and whether this needs to be reviewed. LC explained that this was something that they had looked at the beginning of lockdown and Brunel are happy with the processes in place.</p>	
7	<b>Governance Review Update</b>	
	<p>JRS provided thanks to the partnership who have supported on this in recent months. He explained that there has been a lot of progress in a short space of time. JRS explained that they are aiming to hit the December deadline to complete the bulk of the work. The three main areas they have been looking at is the appraisal of the chair, NED's and a shareholder consultation.</p>	

	<p>JRS explained that every client or shareholder will be invited to share their views on the appraisal process. The document explains how this will happen.</p> <p>The process to remove a shareholder NED needs to be updated. JRS explained that the new process as agreed by the funds is that this will be a simple majority rather than an 80% vote in favour of removal as previously set out. JRS noted that this was an SRM to make this change.</p> <p>Consultations where sensitive issues and where the group need to work quickly is also explained in these papers. Everything will go through client group.</p> <p>BS queried how the senior team of NED's will work going forward with clients. JRS explained that in terms of time and resource, JRS and the new CIO will be working very closely. The time allocation for the NED will be around 40 days per annum which is larger than what is in place for the other NED's (30 days per annum).</p> <p>RT queried what the new NED will be doing. JRS explained that they are currently in the process of producing the job spec but will be classed as the Shareholder NED. JRS explained that Steve Tyson currently covers both the Shareholder and Investment NED responsibilities which is taking up to 70 days which is more than double what is allocated. TD added that he feels that the shareholder NED role had failed previously, he is happy with having 5 NED's but would like the opportunity to review the people in these roles.</p> <p>It was decided that the BOB meeting was not the place to discuss this and the discussion would be taken offline. <b>This discussion to be taken offline by DLG and RT.</b></p> <p>DH queried 7B in the schedule of work. He has a concern that the group may end up with another level of governance. The Funds were happy with the structure that had been proposed for the NED's but expressed concern over the people in the positions. JRS explained that there will be a paper addressing these concerns and will explain that re-appointment/appointment process in more detail.</p> <p><u>Consultation Process</u></p> <p>JRS explained the consultation process and explained that the aim of this would be to make swift decisions.</p> <p>KB noted a word of caution was just because there is a shareholder forum doesn't mean that decisions will be made quickly and that most decisions will need to be taken away and discussed individually within each Fund. RT explained that his preference would be not to have a forum and for JRS to lead on this individually would be a better approach. MG noted that no</p>	<p>DLG/RT</p>
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	decisions need to be made today and that that the forum is next on the table for the S&G group.	
8	<b>Any other Urgent items for information</b>	
	<p>NB noted that the next meeting is on the 3<sup>rd</sup> December. He noted that scheme member reps will have come to an end by this point. The same democratic process as last time will happen again to agree the new appointments or re-appointments.</p> <p>The annual election of the chair and vice-chair of the group will be held at the next meeting. NB asked the Funds to inform him whether they would like to nominate someone.</p>	
9	<b>Meeting Close – 12.35</b>	

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of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	11 DECEMBER 2020	AGENDA ITEM NUMBER
TITLE:	INVESTMENT PANEL ACTIVITY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Minutes from Investment Panel meeting held 20 November 2020		
EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 20 November 2020		

## **1 THE ISSUE**

- 1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.
- 1.2 The Panel's last formal meeting was held on 20 November 2020. The draft minutes of this meeting provide a record of the Panel's debate before reaching any decisions or recommendations.

## **2 RECOMMENDATION**

- 2.1 Notes the decisions as summarised in paragraph 4.1
- 2.2 Notes the minutes of the Investment Panel meeting on 20 November at Appendix 1 and Exempt Appendix 2.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 In general, the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.
- 3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

## 4 RECOMMENDATIONS AND DECISIONS

**4.1 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. Given the change from the existing static approach it was also agreed that the design of the strategy should be presented to Panel prior to any onward delegation to Officers and Mercer. During the meeting Mercers focussed on how the proposed strategy design (a “put spread calendar collar”) should 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. Further details of the Panel discussion can be found at Exempt Appendix 2.

**The Panel agreed to implement the strategy by using a “put spread calendar collar” and to delegate further implementation decisions, including the appointment of a counterparty bank, to Officers and Mercer.**

**4.2 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 related 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.

## 5 INVESTMENT PANEL DELEGATION

5.1 The activity was undertaken under the delegation set out in the Fund’s Terms of Reference:

*The Investment Panel will:*

1. *Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
2. *Review the performance of the investment and risk management strategies*
3. *Report matter of strategic importance to the Committee*

*and have delegated authority for:*

4. *Monitoring the transition of assets to the Brunel portfolios and allocate assets to the relevant portfolio offered by Brunel.*
5. *Approve and monitor tactical positions within strategic allocation ranges.*
6. *Approve allocations to emerging opportunities within strategic allocations.*
7. *Approve commitments to Brunel’s private market portfolios at each commitment cycle to maintain strategic allocations.*
8. *For Risk Management strategies, monitor the implementation of the structures, consider strategies for restructuring and monitor collateral requirements.*
9. *For assets held outside Brunel:*
  - a) *Implement investment management arrangements in line with strategic policy*



*b) Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*

*10. Monitor the investment performance of the portfolios managed by BPP Ltd and report to Committee on investment matters with specific reference to strategy delivery.*

*11. Delegate specific decisions to Officers as appropriate.*

## **6 RISK MANAGEMENT**

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

6.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

## **7 EQUALITIES**

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **8 CLIMATE CHANGE**

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **9 OTHER OPTIONS CONSIDERED**

9.1 None.

## **10 CONSULTATION**

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Nathan Rollinson, Investments Manager (Tel: 01225 395357)
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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## **BATH AND NORTH EAST SOMERSET**

### **AVON PENSION FUND COMMITTEE INVESTMENT PANEL**

Friday, 20th November, 2020

**Present:-** Councillors Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk) and Nathan Rollinson (Investments Manager)

#### **23 WELCOME & INTRODUCTIONS**

The Chair welcomed everyone to the meeting.

#### **24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There were none.

#### **25 DECLARATIONS OF INTEREST**

There were none.

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

There was none.

#### **27 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

#### **28 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

#### **29 MINUTES - 11TH SEPTEMBER 2020**

The minutes of the meeting on 11<sup>th</sup> September 2020 were confirmed as a correct record.

## 30 DYNAMIC EQUITY PROTECTION: STRATEGY DESIGN

The Investments Manager introduced this report to the Panel, a summary is set out below.

The main differences of a dynamic approach versus the existing static structure is that it trades 'little and often', seeking to limit timing risk, reduce volatility and improve overall risk-adjusted returns.

One of the significant challenges of implementing a dynamic structure is measuring its success. Benchmarking a static structure is relatively simple given that it has a finite life and its value is determined on a single expiry date. With a dynamic strategy the most intuitive way of presenting performance is to show the extent to which it has either added or detracted from equity market returns and how it has served to reduce volatility over a given period of time.

Mercer have run a number of back-tests across different timeframes and using various dynamic implementation approaches to arrive at a recommendation that optimises risk-adjusted returns.

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

**The Panel RESOLVED to:**

- i) Agree to implement the bank-led dynamic equity protection strategy by using a "Put Spread Calendar Collar" structure and agrees the design parameters as set out in Exempt Appendix 1.**
- ii) Delegate the implementation of the strategy, including the appointment of a bank counterparty, to Officers and Mercer.**

## 31 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this report to the Panel, a summary is set out below.

Assets that have transitioned now total £3.19bn (at 31/09/20). In addition, Brunel invests £109.3m in secured Income and £40.2m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt have yet to commence.

To fund the allocation to Sustainable Global Equities in line with the strategic allocation the Brunel UK Equity fund was sold as were the two mandates with Jupiter. The balance was funded by the partial sale of the Brunel Global Equity portfolio.

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

The Panel **RESOLVED** to:

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

## **32 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2020**

The Investments Manager introduced this report to the Panel, a summary is set out below.

Green Sovereign Bonds – The UK government has announced it will issue its first green bonds to fund investment in tackling the climate crisis and aid the recovery from the pandemic.

Brunel has joined the Workforce Disclosure Initiative. The initiative calls for greater transparency on workforce policies and practices in companies' direct operations and supply chains. They have also joined the Good Work Coalition, which engages with companies on the importance of a real living wage and living hours.

The Department for Work & Pensions launched a consultation in August, proposing mandatory Taskforce on Climate-related Financial Disclosures (TCFD) to be embedded within pensions Law. The public consultation, launched by the Pensions Climate Risk Industry Group, sought views on policy proposals to require trustees of larger occupational pension schemes and authorised schemes to address climate change risks and opportunities through effective governance and risk management measures.

The Fund pledged its support for an engagement initiative targeting marine microplastic pollution; a priority theme for the Fund as outlined in the Fund's recently published Responsible Investing Annual Report.

Referring to Appendix 2, Steve Turner, Mercer addressed the Panel.

He said that by taking a three year view on Equities (Developed, Emerging and Small Cap) this could be fairly constructive. He explained that the key reason for this was the expectation that interest rates will remain low. He added that in 2021 they were expecting to see a lot of pro-growth policies and spending from Central Banks and Governments.

He stated that Property remains the most challenging asset class that the Fund has exposure to, in particular those affected by Covid-19 within the hospitality and leisure industries. He added that the level of rate collection within most property funds is

between 60% - 80%. He said that in the long term there was an ongoing question mark over future use of office space which Brunel were keeping under review.

He said in terms of Manager Performance there was still a period of transition to Brunel to be considered. He informed the Panel that a number of managers had outperformed against their benchmark.

He explained that a discussion had already begun with officers regarding the redesign of their performance report as a lot of elements within it should be addressed by Brunel. He added that the Mercer version would look to focus more on monitoring strategic asset allocation.

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

The Panel **RESOLVED** to note the information as set out in the reports.

### 33 TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Group Manager for Funding, Investments & Risk introduced this report to the Panel, a summary is set out below.

It is expected that “large” pension funds will be required to provide climate-related financial disclosures in the future. For funds with assets of £5bn or more, it is expected that the reporting period would start from 1 October 2021, with the report required by late 2022. Assuming this is to become law, MHCLG would be expected to make provision for the LGPS broadly in line with DWP regulations.

The Task Force for Climate-related Financial Disclosures (TCFD) framework is considered best practice and is widely adoptable and applicable to organisations across all sectors and countries. Use of this framework to improve the Fund’s disclosure was discussed as part of the Fund’s strategic review in 2019/20; it was agreed the Fund would consider adopting the TCFD’s recommendations as soon as it was practical.

As long-term investors with a focus on responsible investing and transparency, it is imperative that we support, where possible, initiatives that will improve the information available for markets to effectively price climate-related risk in order to improve investment decision making and for policy makers to address market and policy failures.

Early adoption demonstrates the commitment the Fund has to addressing climate risk and capturing opportunities as well as encouraging better disclosure across the industry.

The Panel **RESOLVED** to note the intention to adopt the TCFD recommendations for the year ending 31 March 2021.

## 34 FORWARD AGENDA

The Group Manager for Funding, Investments & Risk introduced this report to the Panel.

She informed them that in addition to the provisional agenda within the report that workshops on the Equity Portfolio Review were due to be planned for next year.

The Panel **RESOLVED** to note the forward agenda.

The meeting ended at 4.00 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>11 DECEMBER 2020</b>
TITLE:	<b>INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 September 2020)</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p>Appendix 1 – Fund Valuation</p> <p>Appendix 2 – Mercer Investment Performance Report</p> <p>Appendix 3 – LAPFF Quarterly Engagement Monitoring Report</p>	

## **1 THE ISSUE**

- 1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level; and policy and operational aspects of the Fund.
- 1.2 This report contains performance statistics for periods ending 30 September 2020.

## **2 RECOMMENDATION**

**The Avon Pension Fund Committee is asked to note:**

- 2.1 **The information set out in the report and appendices**

### 3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2020 will affect the 2022 triennial valuation. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

### 4 FUNDING LEVEL

4.1 Using information provided by the Actuary, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. **It should be noted that this is just a snapshot of the funding level at a particular point in time.**

4.2 Key points from the analysis are:

- a) The funding level increased from 92% to 93% over the quarter to 30 September 2020. Based on investment returns and net cashflows into the Fund, the deficit was estimated to have reduced over 3Q20, from £420m to £376m.
- b) The increase in the funding level occurred as the value of the assets rose by more than the present value of the liabilities over the period.

### 5 INVESTMENT PERFORMANCE

#### A – Fund Performance

5.1 The Fund's assets increased by £77m (1.9% net investment return) over the quarter ending 30 September 2020 giving a value for the Fund of £5,032m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and manager. Manager performance is monitored in detail by the Investment Panel. The Fund's investment return inclusive and exclusive of currency hedging and performance of the strategic benchmark are presented below, in absolute terms. The Fund's currency hedge contributed 0.8% over the quarter.

**Table 1: Fund Investment Returns** (Periods to 30 September 2020)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	1.9%	-0.2%	3.4%
Avon Pension Fund (excl. currency hedging)	1.1%	-0.9%	3.8%
Strategic benchmark (no currency hedging)	-0.2%%	-0.8%	4.4%
Currency hedge impact	0.8%	0.7%	-0.4%

5.2 **Fund Investment Return:** Global equity markets ended the quarter in positive territory. Developed markets were up 6.6% in local currency terms while emerging markets appreciated by 8.8%. US equities were the strongest performer driven mostly by growth technology stocks. The depressed energy sector weighed heavily on UK equities which depreciated over 3% per the FTSE All Share index. 10-year benchmark US and UK yields ended the quarter higher reflective of "risk-on" sentiment and credit spreads narrowed. Sterling appreciated against the US Dollar by 4.6% and by 2.3% against the Japanese Yen and was flat versus the Euro over the quarter. Further information on asset class performance can be at Appendix 2. Post period-end the US election result

and a COVID-19 vaccine breakthrough sparked an equity market rally, pushing prices to all-time highs.

- 5.3 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme added 0.8% over the quarter.
- 5.4 **Liability Risk Management Strategy Performance:** The liability risk management strategy seeks to 'lock in' to attractive levels of real interest rates to achieve increased long-term certainty of real returns. Any increase in the present value of the Fund's liabilities should be met with a subsequent increase in the value of the liability hedging component of the BlackRock Qualifying Investor Fund (QIF). Over the quarter, and in line with expectation, the value of the Fund's LDI portfolio increased slightly, mainly due to a small rise in implied inflation. The Fund's inflation hedge ratio was increased to 35% of assets in line with the recommendation agreed by Committee at its September meeting. Post period-end a response to the consultation on RPI methodology was published. 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. Following the announcement short-term inflation expectations rose due to sustained Brexit risk. A perceived lack of upcoming inflation linked bond issuance, which would create a supply and demand imbalance, pushed inflation expectations at longer maturities higher. 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.
- 5.5 **Equity Protection Strategy Performance (EPS):** The Fund's equity protection strategy declined in value over the quarter, as markets rose further from the protection levels in place. All regions of the equity protection strategy posted a positive market value at the end of the period, except for the US as underlying equity markets in this region moved significantly higher. An adjustment to the underlying regional make-up of the options was made during the quarter to ensure minimal mismatch between the protection strategy and the underlying physical equity exposure, where UK equities were exited to facilitate the transition to the Brunel Global Sustainable Equity portfolio.
- 5.6 **Collateral Management:** At the end of the period the manager sold down £290m of passive equity holdings held for collateral purposes in order to maintain a comfortable collateral position following the inflation hedge increase. This was viewed as a rebalancing exercise to reduce the Fund's overweight equity allocation; hence a decision was taken not to replicate the lost equity exposure synthetically.

## **B – Investment Manager Performance**

- 5.7 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **There were no changes to manager ratings this quarter.**
- 5.8 Manager total returns over the quarter were positive for all assets, except for the UK equity mandates. Global and Emerging Market Equities performed strongly. The Fund's Hedge Fund mandate performed well, both in local

currency and Sterling terms. Multi-Asset Credit strategies also performed well and the Fund's residual holding in its legacy DGF manager posted modest gains over the quarter. Property returns over the quarter were positive, noting that the Overseas Property mandate is lagged by one quarter. Valuation uncertainty persists in this asset class. Over the year, returns displayed a similar pattern with most asset classes posting positive absolute and relative returns, with the exception of property and core infrastructure. The 1-year relative underperformance in the core infrastructure mandate is partly a result of Sterling appreciating against the US dollar in the final quarter of 2019, before the Fund switched into a GBP share class. The relative underperformance is exacerbated by the managers 'cash+' benchmark. Over a 3-year period core infrastructure delivered significant value. Of the other mandates with a 3-year track record returns were mixed. The legacy DGF manager and MAC manager underperformed their cash benchmarks but posted c.3% and c.2% absolute returns, respectively. Detailed analysis of investment manager performance can be found at Appendix 2.

- 5.9 With Brunel now managing most of the liquid assets, officers and Mercer will revise the quarterly monitoring reports to reflect the new arrangements.

## 6 INVESTMENT STRATEGY

- 6.1 **Asset Class Returns versus Strategic Assumptions:** Developed market equity returns over the last 3 years were 9.4% p.a., ahead of the assumed strategic return of 6.8% p.a. used during the 2019/20 investment strategy review. The 3-year return from emerging market equities was 4.6%; below the assumed 3-year return of 8.3%. Over the 3-year period index-linked gilts returned 7.0% p.a. versus an assumed return of 1.6%. The 3-year UK property return of 3.2% p.a. lags its assumed return of 5.2%, due to continued recent uncertainty.

- 6.2 **Private Markets Commitments to Brunel Portfolios:** At 30 September 2020 34% of the Fund's cycle 1 £115m commitment to Brunel's renewable infrastructure portfolio had been deployed and 32% of the Fund's £345m commitment to the secured income portfolio had been deployed. The pace of capital deployment across both asset classes remains slow due to managers deferring acquisitions as a result of the pandemic. The current best estimate suggests further capital will not be called until late 2020 into March 2021 for the long-lease property funds. Capital calls are expected to resume sooner for the infrastructure portfolio as tactical opportunities are explored. The operational infrastructure element of the secured income portfolio has not been affected to the same extent as the long-lease property assets and the Fund's entire commitment of £94m to the underlying manager has been called. Post period-end capital calls were issued for the Fund's Cycle 2 commitments to the renewable infrastructure and secured income portfolios. The Fund will seek to increase Cycle 2 commitments at the next available opportunity in March 2021; increasing them in line with strategic allocations.

## 7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

### Portfolio Rebalancing

- 7.1 £290m of passive equities were switched into gilts within the BlackRock QIF in order to reduce the Fund's overweight equity allocation and top up the collateral pool for the risk management strategies.

## Cash Management

- 7.2 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.
- 7.3 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

## 8 RESPONSIBLE INVESTMENT ACTIVITY

### 8.1 Brunel Responsible Investment Activity: Key RI achievements over the quarter included:

- i. Brunel joined the Workforce Disclosure Initiative. The initiative calls for greater transparency on workforce policies and practices in companies' direct operations and supply chains. Brunel also joined the Good Work Coalition, which engages with companies on the importance of a real living wage and living hours.
- ii. The Fund pledged its support, both via Brunel and in its own right, for an engagement initiative targeting marine microplastic pollution; a priority theme as outlined in the Fund's recently published [Responsible Investing Annual Report](#).
- iii. Policy Advocacy – Brunel supported calls for the UK Government to expedite the issuance of 'green gilts'. The first green sovereign bond will be issued in 2021 and the money raised by the bonds will be used to help fund projects to tackle climate change, build infrastructure investment and create jobs in the sector.

### 8.2 Brunel Voting & Engagement Summary: Federated Hermes engaged with 211 companies held by Avon in the Brunel segregated portfolios on a range of 606 ESG issues. Environmental topics featured in 28.9% of engagements, 78.9% of which related directly to climate change. Social topics featured in 21.0% of engagements, where human capital, human rights and diversity featured prominently. Of the 29.7% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 124 meetings (1,397 resolutions). At 57 meetings they recommended opposing one or more resolutions. Over 70% of the issues Hermes voted against management on comprised board structure and remuneration.

### 8.3 Stewardship Update: During the quarter, the Fund's managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	392
Resolutions voted:	4711
Votes For:	4107
Votes Against:	552
Abstained:	11
Withheld* vote:	41

*\* A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the*

*different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

- 8.4 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 3.

## **9 RISK MANAGEMENT**

- 9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

## **10 EQUALITIES**

- 10.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## **11 CLIMATE CHANGE**

- 11.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Change Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **12 OTHER OPTIONS CONSIDERED**

- 12.1 None.

## **13 CONSULTATION**

- 13.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Nathan Rollinson, Investments Manager (Tel: 01225 395357)
<b>Background papers</b>	Data supplied by Mercer & SSBT Performance Services
<b>Please contact the report author if you need to access this report in an alternative format</b>	



## AVON PENSION FUND VALUATION - 30 SEPTEMBER 2020

	Brunel Portfolios	Cash Management Strategy	QIF	Funds of Hedge Funds	DGFs	MAC	Property		Infra-structure	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
<b>Equities</b>													
UK												0.0	0.0%
Emerging Markets	246.6											246.6	4.9%
Global Developed Markets	358.0		222.8									580.8	11.5%
Global Sustainable Equities	494.0											494.0	9.8%
Global Low Carbon	616.9											616.9	12.3%
Equity Derivatives <sup>1</sup>			38.0							15.5		53.5	1.1%
<b>Total Overseas</b>	<b>1715.5</b>		<b>260.8</b>									<b>1976.3</b>	<b>39.6%</b>
<b>Total Equities</b>	<b>1715.5</b>		<b>260.8</b>							<b>13.8</b>		<b>1990.1</b>	<b>39.6%</b>
<b>Exchange-Traded Funds</b>		<b>46.0</b>										<b>46.0</b>	<b>0.9%</b>
<b>DGFs</b>	<b>493.1</b>				<b>150.5</b>							<b>643.6</b>	<b>12.8%</b>
<b>Hedge Funds</b>				<b>268.7</b>								<b>268.7</b>	<b>5.3%</b>
<b>MAC</b>						<b>302.5</b>						<b>302.5</b>	<b>6.0%</b>
<b>Property</b>							<b>223.7</b>	<b>207.4</b>				<b>431.1</b>	<b>8.6%</b>
<b>Infrastructure</b>									<b>345.5</b>			<b>345.5</b>	<b>6.9%</b>
<b>Renewable Infrastructure</b>	<b>40.2</b>											<b>40.2</b>	<b>0.8%</b>
<b>Secured Income</b>	<b>109.3</b>											<b>109.3</b>	<b>2.2%</b>
<b>LDI Assets &amp; Bonds</b>													
LDI Assets			587.9									587.9	11.7%
Corporate Bonds			133.2									133.2	2.6%
<b>Total Bonds</b>			<b>721.1</b>									<b>721.1</b>	<b>14.3%</b>
<b>Cash</b>											120.7	<b>128.0</b>	<b>2.5%</b>
<b>FX Hedging</b>										5.3		<b>5.3</b>	<b>0.1%</b>
<b>TOTAL</b>	<b>2358.1</b>	<b>46.0</b>	<b>981.9</b>	<b>268.7</b>	<b>150.5</b>	<b>302.5</b>	<b>223.7</b>	<b>207.4</b>	<b>345.5</b>	<b>19.1</b>	<b>120.7</b>	<b>5031.7</b>	<b>100.0%</b>

<sup>1</sup> Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

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# Avon Pension Fund

## Committee Investment Performance Report Quarter to 30 September 2020

November 2020

**Steve Turner**  
**Ross Palmer**

# IMPORTANT NOTICES

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

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## Section 1

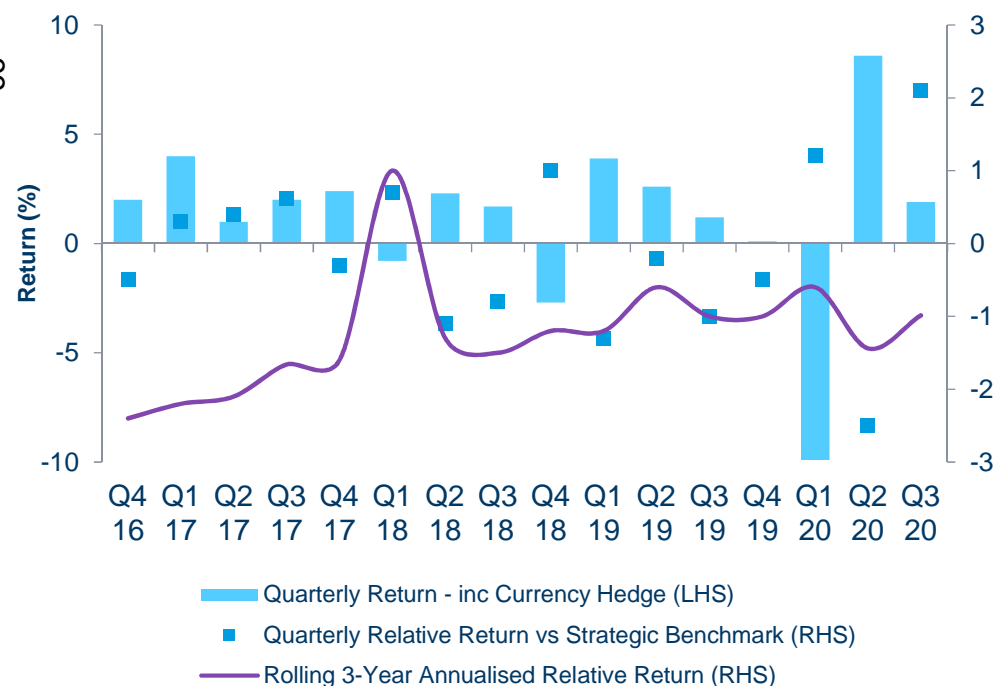
# Executive Summary

# EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund (1)	1.9	-0.2	3.4
Total Fund (ex currency hedge)	1.1	-0.9	3.8
Strategic Benchmark (2)	-0.2	-0.8	4.4
<b>Relative (1 - 2)</b>	<b>+2.1</b>	<b>+0.6</b>	<b>-1.0</b>

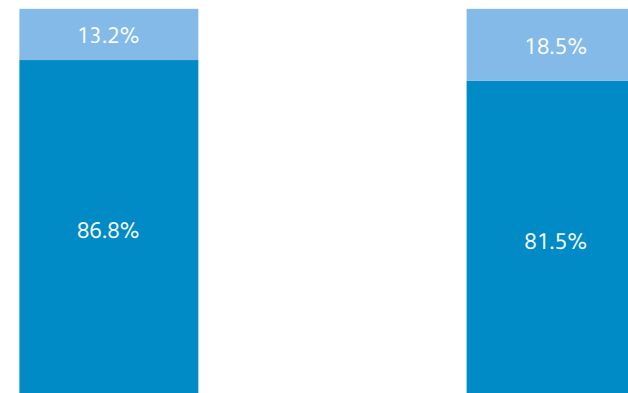
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## Excess Return Chart



## Asset Allocation

**£4,955m** → **£5,032m**



30 June 2020

30 September 2020

■ Growth Assets

■ Matching Assets (inc. cash)

## Commentary

Over the quarter, total Fund assets increased from £4,955m to £5,032m. This was driven by positive performance across most asset classes, particularly overseas equity.

At the end of the quarter, the allocation to all asset classes were within their control ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates, which are in the process of being drawn down.

The Fund outperformed the strategic benchmark over the quarter and one-year period, but underperformed over the three-year period. The currency hedging mandate has added value over the last year as Sterling appreciated.

# EXECUTIVE SUMMARY

This report has been prepared for the Investment Committee of the Avon Pension Fund (“the Fund”), to assess the performance and risks of the investment managers of the Fund.

## Fund Performance

- Invested assets increased by £77m over the quarter to 30 September 2020, to £5,032m. Modest positive performance was seen across most asset classes, particularly overseas equity, as markets continued to be buoyed by central bank liquidity. The only negative performers in the portfolio were UK equities, which remain subdued as Brexit negotiations rumble on, and secured income, which is still in the process of being drawn down.

## Strategy

- Global (developed) equity returns over the last three years were 9.4% p.a., above the assumed strategic return of 6.8% p.a. from the strategy reviews over 2019. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years), though have cause for optimism on their outlook due to the backdrop of low bond yields, low inflation and very pro-growth policy makers creating a favourable environment, not withstanding the risks associated with the US election and Brexit.
- Emerging market equities have returned 4.6% p.a. over the three-year period, behind the assumed return of 8.3% p.a. Emerging markets are still more attractively priced than other developed market regions, in our view. The macro environment remains mixed for emerging markets but the continued recovery over the last quarter could continue their recent momentum.
- High yield bonds returned 4.9% p.a. over the three-year period, slightly ahead of the assumed strategic return of 4.4%, whilst UK corporate bonds were also ahead of their 2.6% target with returns of 4.7% p.a..
- The three-year UK property return of 3.2% p.a. is behind the assumed return of 5.2% p.a., suppressed by recent uncertainty.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains strong, though gilt yields saw a slight shift upwards over the quarter. Fixed interest gilts returned 9.5% p.a. over three years versus an assumed return of 1.5% p.a., whilst index-linked gilts also returned 7.0% p.a. versus an assumed return of 1.6% p.a.
- The Fund’s currency hedging policy was positive overall for Fund performance over the quarter, since Sterling appreciated against the Dollar.



# EXECUTIVE SUMMARY

## Managers

- Manager total returns over the quarter were positive for all assets, with the exception of the UK Equity mandates, where wider markets continued to struggle, and also the Secured Income mandate which is still being drawn down. Global Equities and Emerging Market Equity had another strong quarter with a continued recovery in prices. The Hedge Fund mandate was also a strong performer, whilst MAC and Corporate Bonds also grew as spreads continued to narrow. The DGF mandate preserved value, whilst the Property mandate also managed to deliver positive performance despite the uncertainty associated with the asset class.
- The value of the Fund's LDI portfolio increased slightly, mainly due to a small rise in implied inflation.
- The LDI portfolio remains down over the one year period to 30 September. The recovery in the Property and the Core Infrastructure mandate were not enough to bring them into positive territory, though the Renewable Infrastructure mandate is modestly up over the year. UK Equity was significantly down, but all other Equities were up, as were the Credit mandates, DGF and Hedge Fund mandate. In addition, the majority of assets achieved positive relative performance over the period.
- Over the three-year period, three of the active mandates in place for this time –JP Morgan, Schroder Property and IFM – outperformed their benchmarks, though JP Morgan and IFM were the only ones to exceed their performance objectives. The recently terminated Jupiter UK Equity mandate underperformed over this period, as did Ruffer, Loomis Sayles and Partners.

## Key Points to Note

- The Fund's new strategic benchmark is reflected in this report, having become effective as at 1 April 2020.
- The Pyrford DGF holding was terminated towards the start of the quarter, which, alongside a partial redemption of the Ruffer DGF, was used to fund the new Brunel Diversified Returns mandate.
- The UK Equity mandates with Jupiter and Brunel, along with the small Jupiter Global Sustainable Equity holding, were terminated towards the end of the quarter to fund the new Brunel Global Sustainable Equity mandate.
- Separately, at the end of the quarter, the Fund's inflation hedge ratio was increased to c. 35% of assets. This was done in conjunction with a rebalancing exercise, with assets switched from equities to gilts within the BlackRock QIF in order to reduce the Fund's overweight equity allocation and top up the collateral pool for the risk management strategies.
- At quarter end all asset classes were within their ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates which are in the process of being drawn down.

## Section 2

# Market Background

# MARKET BACKGROUND

## INDEX PERFORMANCE

### Equity Market Review

The strong economic rebound that started in early summer continued over the third quarter but started to slow towards quarter end. Manufacturing, services, trade, retail sales and the labour market recouped a large proportion of the losses from earlier in the year when many economies came to a standstill overnight. The rebound narrative along with continued monetary and fiscal policy support drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

Early estimates for the third quarter of 2020 indicate a strong rebound in the US economy. Monetary policy remained very loose, with the Federal Reserve officially moving to an average target inflation regime that will tolerate higher inflation in some periods to make up for lower inflation in others. China is still furthest ahead in terms of economic recovery after its GDP rebounded by 11.5% quarter-on-quarter (non-annualised, seasonally adjusted) to the end of June 2020. Emerging markets outside East Asia remain the epicenter of the disease, which is hampering economic activity, especially in India and Latin America. In the UK, an increase in restrictions towards quarter end has tempered the strong economic rebound seen earlier in the quarter.

Global equity markets continued to rally, returning 3.4% in sterling terms and 7.0% in local currency terms – on top of the double digit recovery seen during the second quarter and in spite of a brief sell-off during September. A number of indices, including the S&P500 are now in positive mid-single digit territory year-to-date. The September sell-off was driven by concerns over frothy technology stock valuations, fear of renewed restrictions in large economies, political gridlock in Washington and the US election.

### Bond Market Review

The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.

UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.

Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks have kept credit markets stable, some volatility in investment grade credit markets during August notwithstanding.

### Currency Market Review

Sterling strengthened against the US dollar over the quarter (by 4.6%) which was more driven by US dollar weakness across the board as investors priced in lower rates for longer and higher inflation in the US. Sterling also appreciated against the Yen (by 2.3%) and was broadly flat (up by 0.2%) against the Euro. Sentiment was boosted by a strong rebound in UK economic activity over summer and markets shrugged off the continued stalemate over a trade deal with the EU that was exacerbated by the UK endeavoring to reopen and renegotiate the Withdrawal Agreement.

### Commodity Market Review

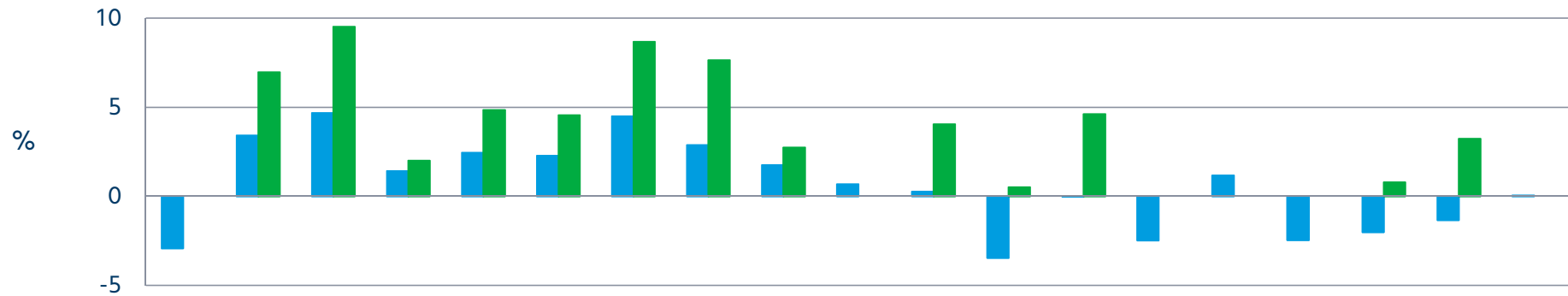
Commodity markets continued their rebound over the quarter, except for energy. Having started the quarter strongly, in September, gold performed poorly as investors started to question the sustainability of the prolonged rally. Agricultural commodities performed well amid supply constraints in major producing countries that are heavily impacted by the pandemic.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

# MARKET BACKGROUND

## INDEX PERFORMANCE

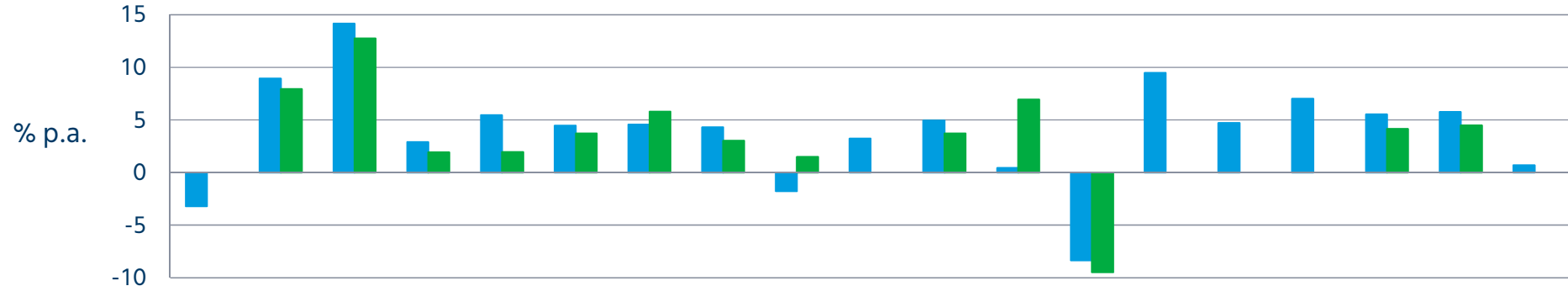
Return over the 3 months to 30 September 2020



Return over the 12 months to 30 September 2020



Return p.a. over the 3 years to 30 September 2020



## Section 3

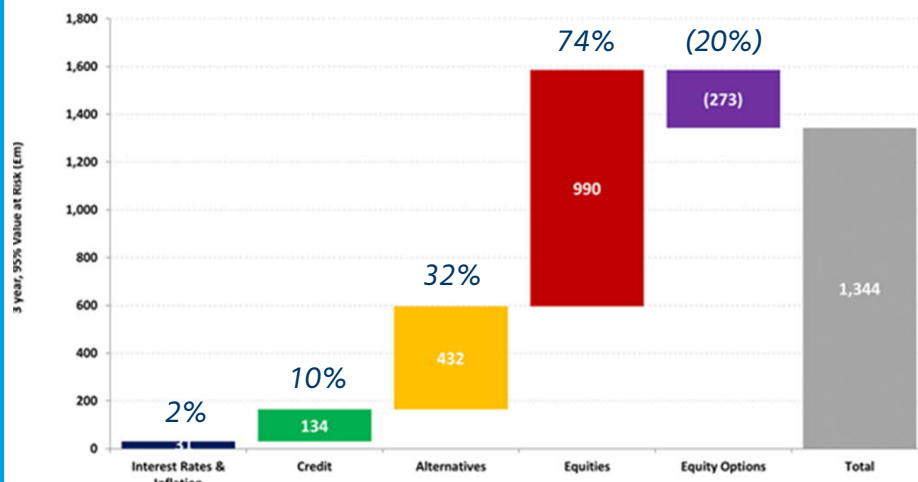
# Strategic Considerations

# STRATEGIC CONSIDERATIONS

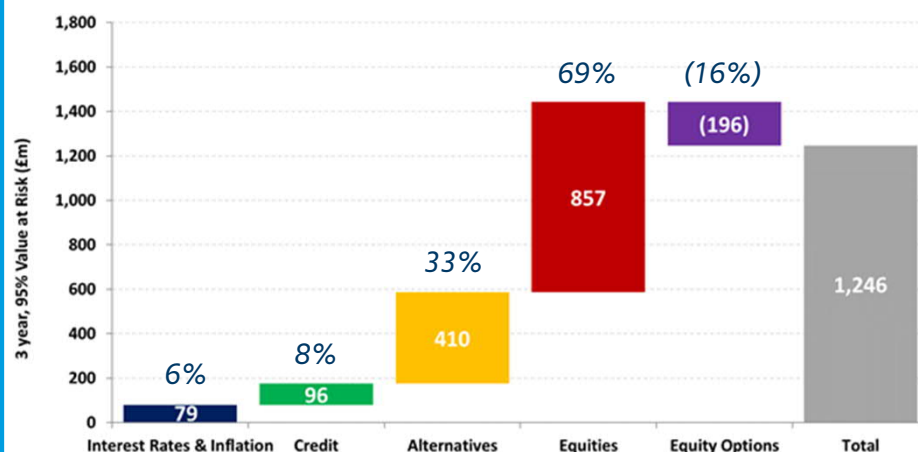
## RISK DECOMPOSITION

Page 106

30 June 2020



30 September 2020



- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change over time, and to initiate debate on an ongoing basis around how to best manage these risks, so as not to lose sight of the 'big picture'.
- The grey column on the right hand side of each chart shows the estimated 95<sup>th</sup> percentile Value-at-Risk (VaR) over a one-year period. In other words, if we consider a downside scenario which has a 1-in-20 chance of occurring, what would be the impact on the deficit relative to our 'best estimate' of what the deficit would be in three years' time.
- If we focus on the chart at 30 September 2020, it shows that if a 1-in-20 'downside event' occurred over the next three years, the deficit could increase by at least an additional **£1.2bn**.
- Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of alternative assets and equity markets, and the benefit from equity options).
- Overall **the VaR has fallen over the quarter**, which is largely attributable to the lower equity allocation within the new strategic benchmark for the Fund, which the Q3 VaR is based on. The interest rate and inflation VaR has marginally increased in light of the recently updated LBP.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation at the time. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

# MARKET BACKGROUND

## INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Global Developed Equity (FTSE AW Developed)	6.8	9.4	The three year return of global developed equities has been ahead of the assumed strategic return. This increased against last quarter after a return of 3.3% over Q3.
Emerging Market Equity (FTSE AW Emerging)	8.3	4.6	The three year return from emerging market equities was unchanged and remained behind the assumed strategic return despite a modest Q3 return of 4.5%.
Diversified Growth (Libor + 5%)	5.7	5.7	DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the Libor based benchmark. Low cash rates means benchmark has underperformed the long term expected return from equity. An absolute strategic return of 5.7% p.a. has been used, along with the specific manager target for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.
High Yield Bonds (BofAML Global High Yield)	4.4	4.9	The three year return of high yield bonds has been ahead of the assumed strategic return.
UK Corporate Bonds (BofAML Sterling Non Gilts)	2.6	4.7	Corporate bond returns grew compared to last quarter as spreads continued to narrow, taking the three year return further ahead of the assumed strategic return.
Property (IPD UK Monthly)	5.2	3.2	Actual property returns fell further behind expected returns. Despite growth in the index of 0.7% over Q3, this was lower than the quarter that fell out of the period. Uncertainty remains around the valuation of assets, and the extent of the impact from the coronavirus pandemic and lockdowns.
Infrastructure (S&P Global Infrastructure)	6.4	-0.2	The infrastructure three year return fell into negative territory over Q3 as the index contracted by 2.9%. It should be noted that the returns of this index can largely driven by currency moves, however the 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.5	9.5	UK gilt returns remain well above the long term strategic assumed return as yields remain low relative to historic averages. Nominal and index-linked gilts rose slightly over the last quarter.
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	1.6	7.0	



# DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q4 2020

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive

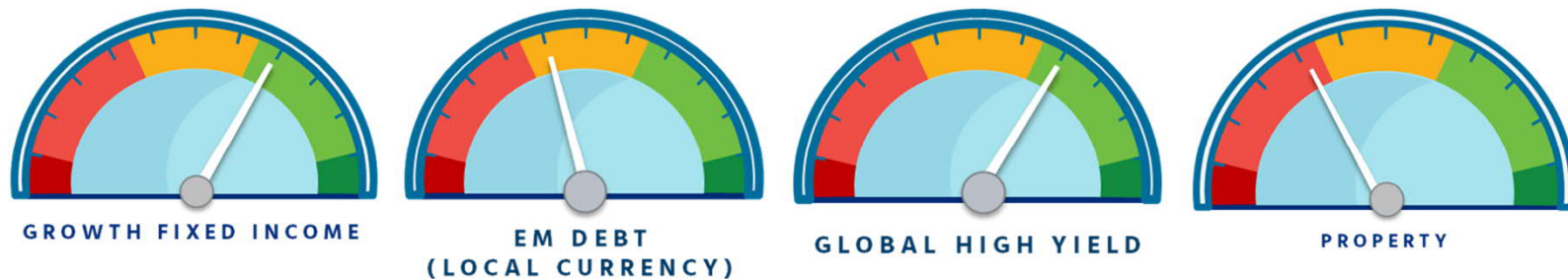
Mercer's current DAA position/view

Position/view last time (if changed)

## Equities



## Growth Fixed Income & Property (Core)



## Protective Assets



The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.



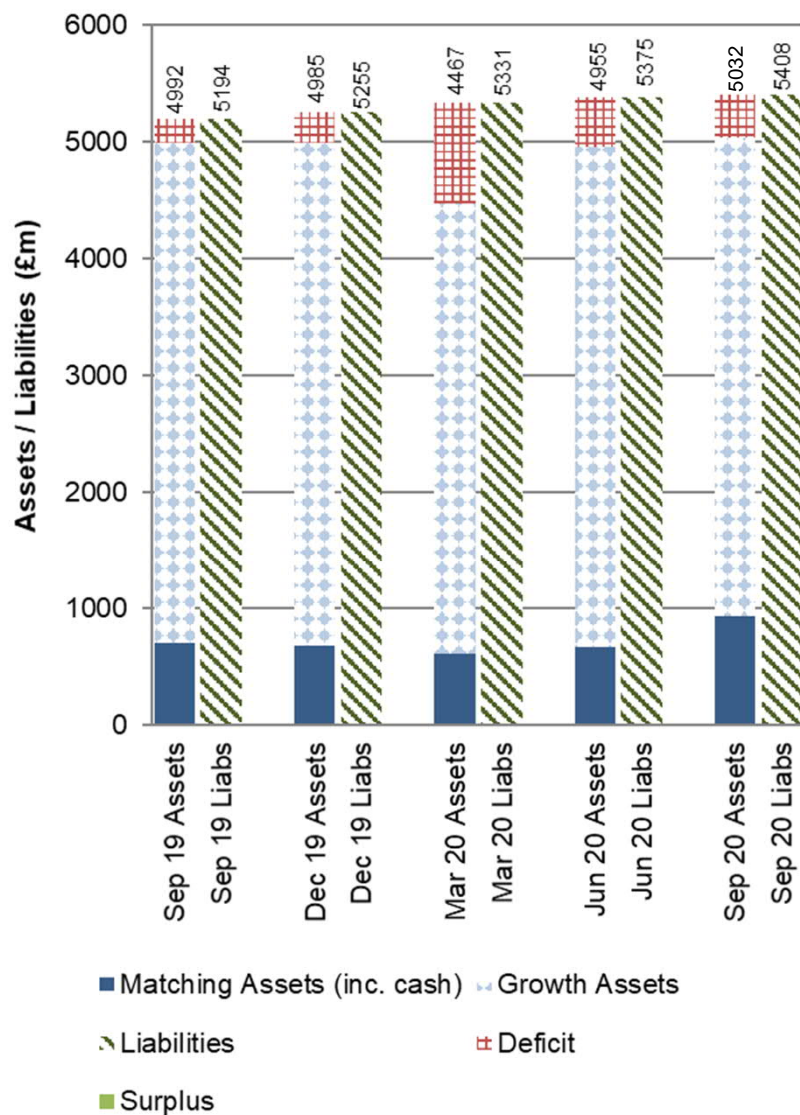
## Section 4

# Consideration of Funding Level

# CONSIDERATION OF FUNDING LEVEL

## ATTRIBUTION OF CHANGE IN DEFICIT/SURPLUS

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- Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have reduced further over the third quarter of 2020, from £420m to £376m.
- This occurred as the value of the assets rose by more than the present value of the liabilities over the period.
- This is calculated using the actuarial valuation assumptions as at 31 March 2019 and the 'CPI plus' discount basis.

# CONSIDERATION OF FUNDING LEVEL

## ATTRIBUTION OF CHANGE IN FUNDING LEVEL

Page 111



- The Fund's assets returned 1.9% over the quarter, whilst the Fund's liabilities increased by 0.6% due to the increase in inflation.
- The combined effect of this, also allowing for cashflow over the period, saw the funding level grow slightly from 92% to 93%.

# Section 5

# Fund Valuations

# FUND VALUATIONS

## VALUATION BY ASSET CLASS

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)			Difference (%)
Global Equity	988,863	601,895	20.0	12.0	12.0	7	-	17	+0.0
Global Sustainable Equity	357,282	494,328	7.2	9.8	10.0	5	-	15	-0.2
Global Low Carbon Equity	596,432	616,893	12.0	12.3	10.0	5	-	15	+2.3
Emerging Market Equity	233,065	246,602	4.7	4.9	5.5	3	-	9	-0.6
Diversified Growth Funds	646,324	643,596	13.0	12.8	10.0	5	-	15	+2.8
Fund of Hedge Funds*	260,004	268,702	5.2	5.3	-	No set range			+5.3
Multi-Asset Credit	293,992	302,521	5.9	6.0	6.0	3	-	9	+0.0
Property	436,675	431,097	8.8	8.6	7.5	5	-	10	+1.1
Secured Income	110,404	109,304	2.2	2.2	10.0	5	-	15	-7.8
Core Infrastructure	338,859	345,475	6.8	6.9	5.0	2.5	-	7.5	+1.9
Renewable Infrastructure	39,925	40,186	0.8	0.8	5.0	2.5	-	7.5	-4.2
Private Debt	-	-	-	-	5.0	0	-	7.5	-5.0
Corporate Bonds	131,554	133,229	2.7	2.6	2.0	No set range			+0.6
LDI & Equity Protection	370,981	625,883	7.5	12.4	12.0	No set range			+0.4
Cash**	150,603	171,951	3.0	3.4	-	0	-	5	+3.4
<b>Total</b>	<b>4,955,110</b>	<b>5,031,696</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

Source: Custodian, Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

\*Mandate due to be terminated.

\*\*Valuation includes the ETF and currency instruments

- Secured Income, Renewable Infrastructure and Private Debt mandates are still being drawn down so allocations are below target ranges.
- The above reflects the new strategic benchmark for the Fund, which became effective on 1 April 2020.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	497,323	-290,000	222,761	10.0	4.4
BlackRock	Corporate Bonds	131,554		133,229	2.7	2.6
BlackRock	LDI* & Equity Protection	370,981	+290,000	625,883	7.5	12.4
BlackRock	ETF	45,817		45,975	0.9	0.9
Jupiter	UK Equity	176,404	-170,824	0	3.6	0
Brunel	UK Equity	167,370	-164,542	0	3.4	0
Jupiter	Global Sustainable Equity	13,193	-13,780	0	0.3	0
Brunel	Global Sustainable Equity	0	+494,014	494,014	0.0	9.8
Brunel	Global High Alpha Equity	468,505	-144,899	358,018	9.5	7.1
Brunel	Global Low Carbon Equity	596,432		616,893	12.0	12.3
Schroder	Global Equities	7,508		7,321	0.2	0.1
Brunel	Emerging Market Equity	233,065		246,602	4.7	4.9

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

\* End of Quarter value includes the collateral top-up which took place just before quarter-end, funded by the Global Equities component, as part of the inflation hedge ratio increase.

# FUND VALUATIONS

## VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Diversifying Returns Fund	0	+500,563	493,104	0.0	9.8
Pyrford	DGF	226,872	-226,981	0	4.6	0
Ruffer	DGF	419,452	-270,346	150,492	8.5	3.0
Loomis Sayles	Multi-Asset Credit	293,992		302,521	5.9	6.0
JP Morgan	Fund of Hedge Funds	260,004		268,702	5.2	5.3
Schroder	UK Property	224,450		223,742	4.5	4.4
Partners	Property	212,225	-3,622	207,355	4.3	4.1
Brunel	Secured Income	110,404		109,304	2.2	2.2
IFM	Infrastructure	338,859		345,475	6.8	6.9
Brunel	Infrastructure	39,925		40,186	0.8	0.8
Record Currency Management	Currency Hedging	15,527		19,069	-0.3	0.4
Internal Cash	Cash	136,878	-15,838	120,701	2.8	2.4
Total		4,955,110	-16,095	5,031,696	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

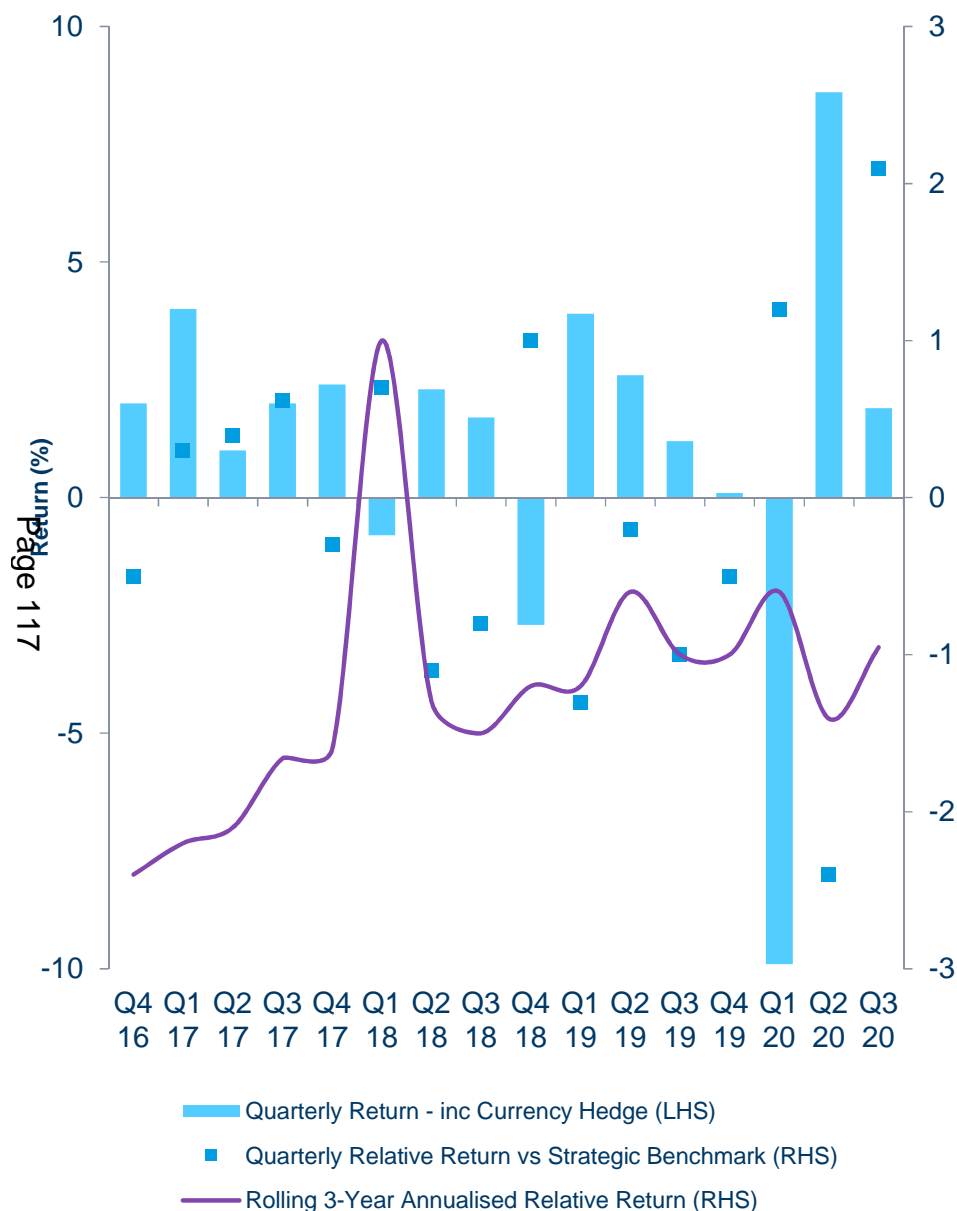
## Section 6

# Performance Summary



# PERFORMANCE SUMMARY

## TOTAL FUND PERFORMANCE

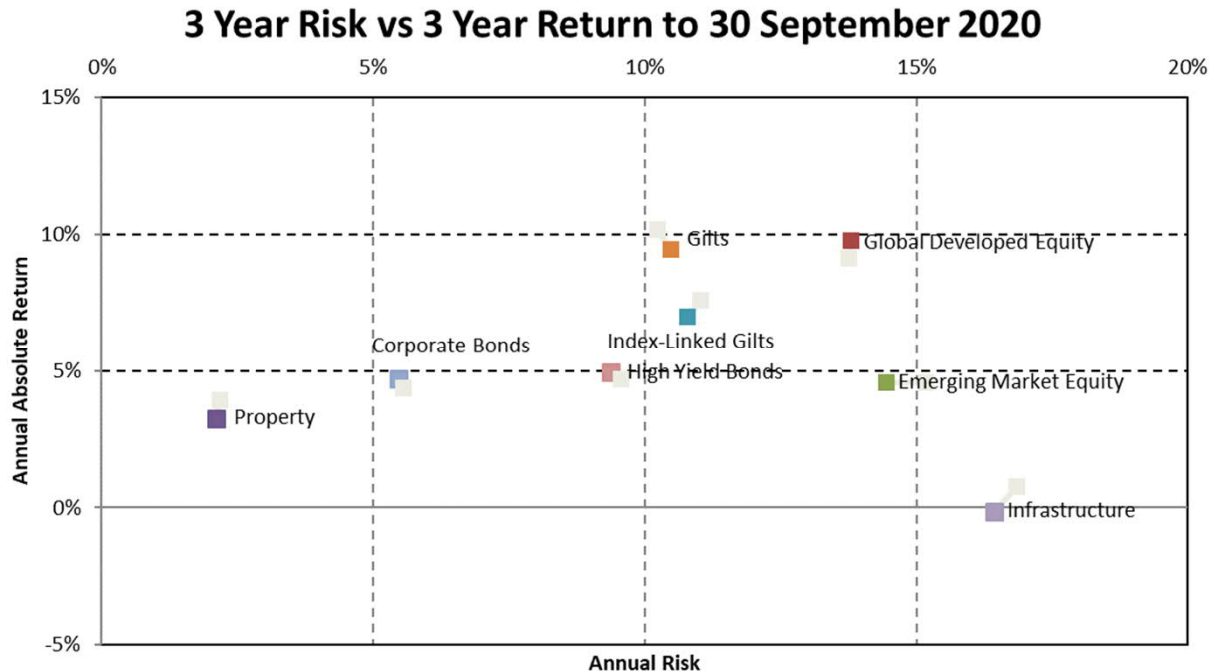


	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund <b>(1)</b>	1.9	-0.2	3.4
Total Fund (ex currency hedge)	1.1	-0.9	3.8
Strategic Benchmark <b>(2)</b> (ex currency hedge)	-0.2	-0.8	4.4
<b>Relative (1 - 2)</b>	<b>+2.1</b>	<b>+0.6</b>	<b>-1.0</b>

- Over the quarter, total Fund assets increased from £4,955m to £5,032m. This was driven by positive performance across most asset classes, particularly overseas equity.
- At the end of the quarter, the allocation to all asset classes were within their control ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates, which are in the process of being drawn down.
- The Fund outperformed the strategic benchmark over the quarter and one-year period, but underperformed over the three-year period. The currency hedging mandate has added value over the last year as Sterling appreciated.

# MANAGER MONITORING

## RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2020, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix). We also show the positions as at last quarter, in grey.

### Comments

- Equity and Bonds saw increases in observed returns over the three-year period, whilst Property, Infrastructure and Gilts fell back slightly.
- Associated volatilities rose across most asset classes, with Emerging Market Equity and Gilts being the only exceptions.
- These movements in risk and return were less pronounced than prior experience in the first half of 2020.

# MANAGER MONITORING

## MANAGER PERFORMANCE TO 30 SEPTEMBER 2020

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Global Equity	3.1	3.2	-0.1	5.3	5.2	+0.1	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	1.3	1.3	0.0	5.9	5.9	0.0	6.9	6.9	0.0	-	Target met
BlackRock LDI	1.0	1.0	0.0	-23.1	-23.1	0.0	-4.7	-4.7	0.0	-	Target met
Jupiter UK Equity	-3.2	-2.9	-0.3	-16.0	-16.6	+0.7	-4.9	-3.2	-1.8	+2	Target not met
Brunel UK Equity	-1.7	-2.9	+1.2	-15.1	-16.6	+1.8	N/A	N/A	N/A	+2	N/A
Jupiter Global Sustainable Equity	4.5	3.5	+1.0	14.2	5.8	+7.9	N/A	N/A	N/A	+2-4	N/A
Brunel Global High Alpha Equity	7.3	3.3	+3.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Brunel Passive Low Carbon Equity	3.4	3.5	-0.1	6.2	6.3	-0.1	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	5.8	4.8	+1.0	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Ruffer DGF	0.9	1.3	-0.4	7.2	5.6	+1.5	3.3	5.7	-2.3	-	Target not met
Loomis Sayles MAC	2.9	1.0	+1.9	2.1	4.5	-2.3	2.3	4.7	-2.3	-	Target not met
JP Morgan FoHF	4.5	0.8	+3.6	13.0	4.6	+8.0	6.4	5.0	+1.3	-	Target met
Schroder UK Property	0.4	0.2	+0.2	-2.6	-2.8	+0.2	2.9	2.6	+0.3	+1	Target not met
Partners Overseas Property *	3.4	2.5	+0.9	-0.6	10.0	-9.7	4.0	10.0	-5.4	-	Target not met
Brunel Secured Income	-1.0	0.5	-1.5	-2.4	0.6	-3.0	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure **	1.9	0.8	+1.2	-3.2	4.5	-7.4	11.7	4.7	+6.7	-	Target met
Brunel Renewable Infrastructure	0.1	0.5	-0.4	10.5	0.6	+9.8	N/A	N/A	N/A	+4	N/A

- Source: Investment Managers, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan and Partners, whose performance is shown in local currency terms.**
- \*\*IFM returns are in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.
- **Returns are net of fees.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.
- \*Performance to 30 June 2020 as this is the latest date that this is available.

## Appendix 1

# Summary of Mandates

# SUMMARY OF MANDATES

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)
BlackRock	Global Equity (passive)	MSCI World	-
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Global Sustainable Equity	MSCI AC World	+2%
Brunel	Global Low Carbon Equity (passive)	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Brunel	Diversified Returns Fund	SONIA	+4-5%
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
Brunel	Secured Income	CPI + 2% p.a.	-
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI + 4% p.a.	-
Brunel	Private Debt	3 Month LIBOR + 4% p.a.	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Record	Passive Currency Hedging	N/A	-
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-
Cash	Internally Managed	7 Day LIBID	-

## Appendix 2

# Market Statistics Indices

# MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Global Developed Equity	FTSE AW Developed
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

# Appendix 3

## Changes in Yields



# CHANGES IN YIELDS

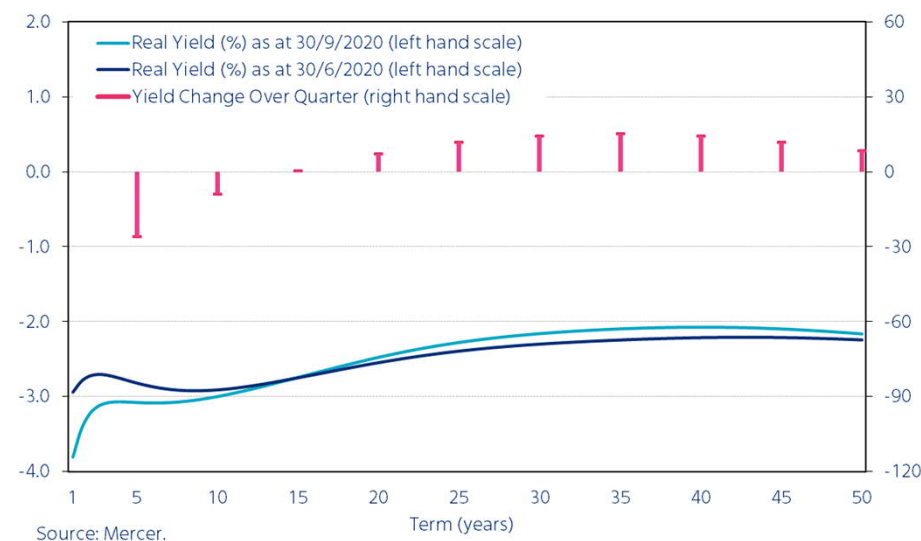
Asset Class Yields (% p.a.)	30 Sep 2020	30 Jun 2020	30 Sep 2019	30 Sep 2018
UK Equities	4.56	4.66	4.21	3.80
Over 15 Year Gilts	0.71	0.58	0.91	1.86
Over 5 Year Index-Linked Gilts	-2.29	-2.38	-2.20	-1.49
Sterling Non Gilts	1.54	1.68	1.84	2.63

- The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.
- UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.
- Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks have kept credit markets stable, some volatility in investment grade credit markets during August notwithstanding.

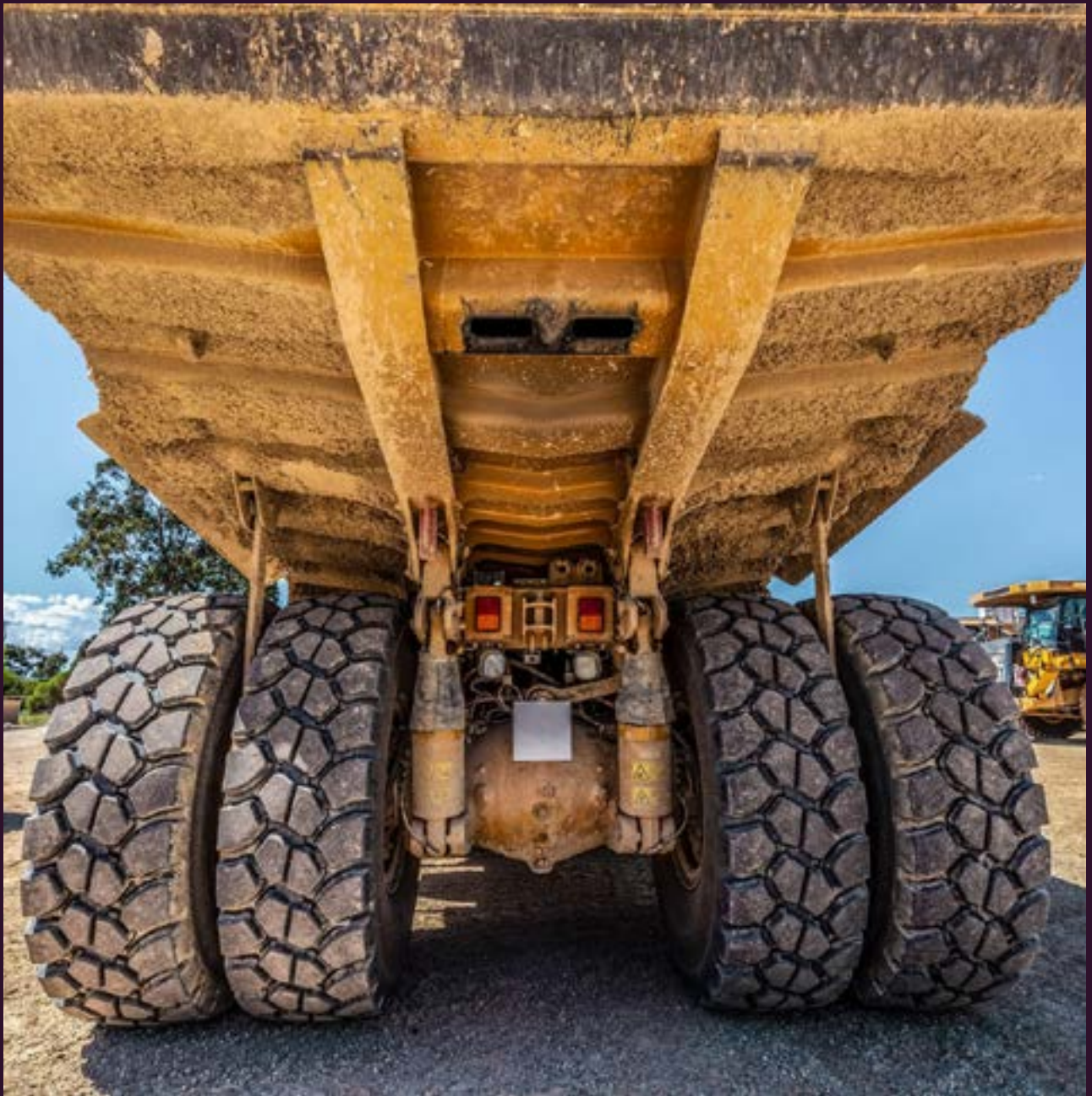
## Nominal yield curves



## Real yield curves







**Quarterly  
Engagement  
Report**

July-September  
2020

Local  
Authority  
Pension  
Fund  
Forum

**Rio Tinto**  
**BHP, Tesco,**  
**Sainsbury,**  
**ArcelorMittal,**  
**National Grid**



## CLIMATE EMERGENCY



Puutu Kunti Kurrama and Pinikura Aboriginal Corporation

# Rio Tinto under pressure from investors over Juukan Gorge

As LAPFF has been learning more about **Rio Tinto's** involvement in the destruction of the historically significant caves at Juukan Gorge in Western Australia, there have been increasing concerns about the company's corporate governance practices. Consequently, the Forum – along with other investor groups, most prominently the Australasian Centre for Corporate Responsibility (ACCR) - has been pushing the company to review its corporate governance arrangements.

One of the main strategies in this engagement has been to issue press releases citing LAPFF's concerns as various details of Rio Tinto's practices were revealed through a range of investigations. There has been an internal investigation led by a non-executive director on Rio Tinto's board, which resulted in the elimination of short-term bonuses for three senior executive members, including the CEO. Subsequently, the CEO and two other senior executives resigned.

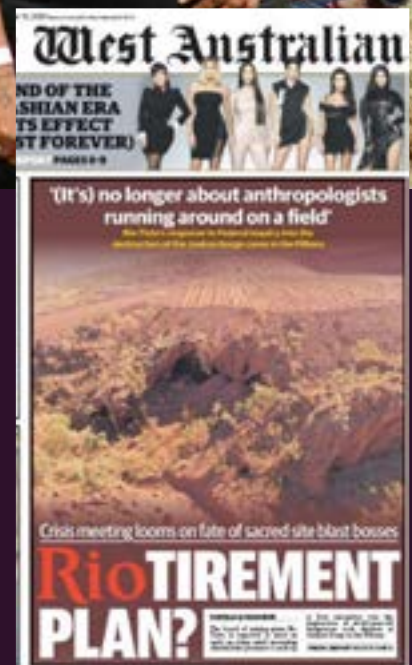
The Forum received significant press coverage for its support of this measure. LAPFF also issued press releases

"My interaction with Mr. Thompson, in his roles as Chair of both Rio Tinto and 3i, has been positive thus far. However, I sense that investors are losing confidence in his leadership and in his board at Rio Tinto. It will be a long road back for the company."

Cllr Doug McMurdo

responding to information issued by Australian Parliamentary inquiries into this matter. There appears to be increasing evidence of corporate governance failures, particularly in relation to engaging properly with indigenous communities, emanating from these inquiries.

LAPFF is continuing to ask questions of the Rio Tinto board about its response to the mounting information on corporate governance failures. The Forum currently has requested LAPFF Chair, Cllr Doug McMurdo, meet with the Chair of Rio Tinto, Simon Thompson, about the



## What happened at Juukan Gorge?

In May, Rio Tinto destroyed 46,000-year-old Aboriginal caves in the Juukan Gorge region of Western Australia. The explosions were part of a government sanctioned mining exploration in the region. The caves are of cultural significance to the Puutu Kunti Kurrama and Pinikura (PKKP) people who claim Rio Tinto did not engage with them adequately before the disaster.

Rio Tinto has since apologised, and senior executives have resigned. However, an Australian parliamentary enquiry is continuing and may yet reveal further corporate governance failings.

## CLIMATE EMERGENCY



Juukan Gorge incident. In the meantime, LAPFF is participating in a collaborative investor group led by Adam Matthews at Church of England to discuss a way forward not only for Rio Tinto, but the mining industry more broadly. LAPFF has also engaged with Rio Tinto in relation to the company's progress on scopes 1 and 2 carbon emission targets; progress on partnerships; and review of trade association memberships.

### BHP Next Investor Target on Indigenous Peoples Engagement

With BHP's AGM coming up, investors are keen to ensure the company avoids another Juukan Gorge-type situation. A repeat is of particular concern in relation to its proposed Resolution Copper mine in Arizona, USA. BHP is in a joint venture with Rio Tinto to scope out the possibility of operating the mine, with BHP as the non-operating partner. Given the company's partnership with Rio Tinto and its joint venture with Vale in the Samarco dam which collapsed in Brazil, there are concerns about how BHP engages with environmental, social and governance issues in joint ventures where it is the non-operating partner.

In the wake of the Juukan Gorge disaster, BHP announced that it will not damage 40 cultural heritage sites in Western Australia without extensively consulting Traditional Owners. The Forum has engaged at length with BHP this quarter ahead of the AGM to understand more about the company's plans and its approach to community engagement.

A LAPFF representative attended a shareholder meeting in July to hear

BHP's cultural heritage team discuss its operation. Cllr McMurdo then met with both BHP Chair Ken MacKenzie and Vice President of Governance, Geof Stapledon to ask about joint ventures and community engagement. Cllr McMurdo took some comfort in the fact that BHP has two safety checks on cultural heritage, including measures Rio Tinto does not have. First, BHP re-engages with affected communities if it has not undertaken work within 12 months of approval from the communities on a given site. Second, the community engagement department at BHP is located within the site-level function rather than the corporate headquarters.

Still, investor confidence in the mining sector has been shaken, which has, in part, led to the Australasian Centre for Corporate Responsibility (ACCR) filing three shareholder resolutions with BHP, one of which is on cultural heritage. The cultural heritage resolution is in three parts and calls for:

- (a) a moratorium on the destruction of cultural heritage sites until better laws are enacted in Australia to protect Indigenous communities in the context of mining projects;
- (b) non-enforcement of contractual provisions essentially imposing a 'gag order' on communities to allow them to speak about concerns regarding mining projects on their land;
- (c) disclosure of the approach to cultural heritage held by the industry associations to which BHP belongs.

The other two resolutions cover a constitutional amendment to allow for advisory shareholder resolutions to be filed and the Covid-climate link. LAPFF will issue a voting alert on these resolutions shortly.



### NET ZERO BENCHMARK

The Forum is proud to be a member of Climate Action 100+, a collaboration with 518 investor groups with \$47tn in assets. From 2021, the CA100+ net zero benchmark will help its members assess a company's alignment to net zero emissions. Using 30 indicators, the benchmark will provide comprehensive analysis on which companies are leading the transition to net-zero emissions, alongside a range of other indicators used by investors to inform investment and corporate engagement strategies. LAPFF's involvement with CA100+ has helped in successful engagements this quarter and we expect the benchmark will encourage more companies to reduce carbon emissions and demonstrate high ambition to align with the Paris Agreement goals.

### THE ARCELORMITTAL CLIMATE CHALLENGE

Steelmaking accounts for 7-9% of global carbon emissions today, and as the largest steelmaker in the world ArcelorMittal is responsible for a significant share. The majority of carbon emissions come from the process of iron ore reduction. The carbon challenge for the industry in the coming decades must be to transform the way in which iron ore is turned into steel.

Over the period of engagement, ArcelorMittal has been responsive and LAPFF and other lead investors have had notable success with the company separately identifying carbon-neutral hydrogen technology as central to its longer term zero-carbon transition.

Most recently ArcelorMittal has set an objective for the whole group to be carbon neutral by 2050 in addition to its shorter term target in Europe to reduce CO2 emissions by 30% by 2030.

Such targets are encouraging but it is active shareholders that must continue to hold the company – and others like it – to their targets. Our engagements continue.



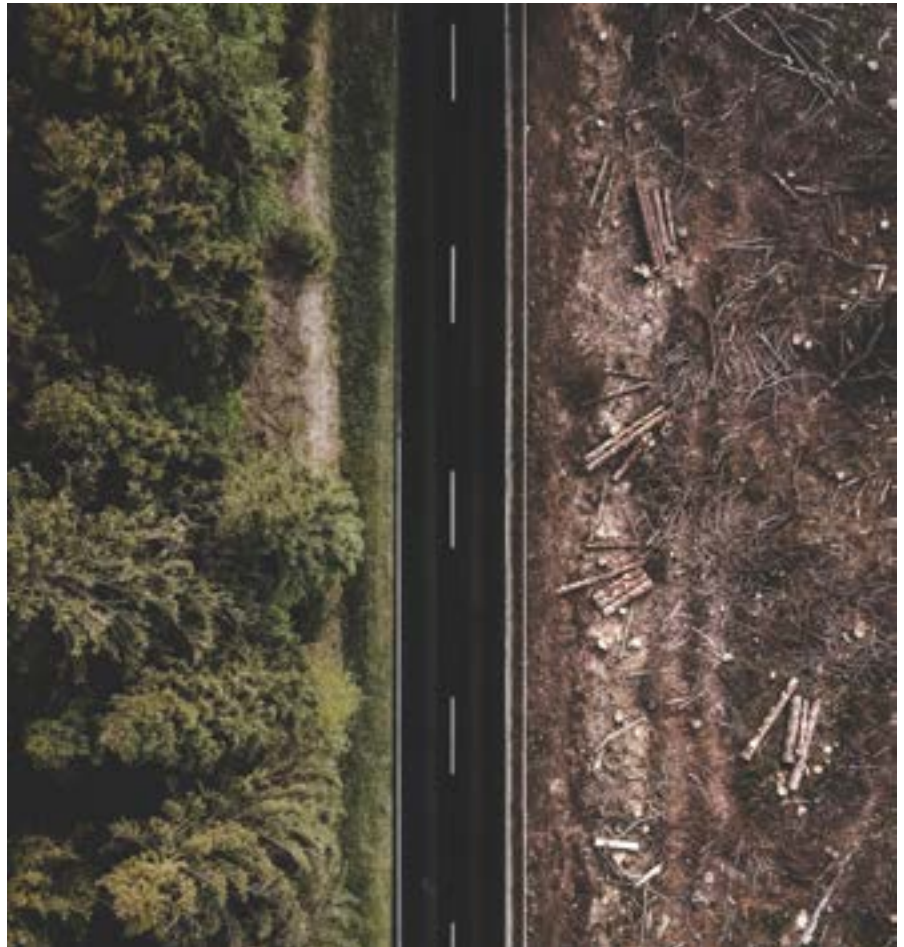
## COMPANY ENGAGEMENT

### ArcelorMittal and National Grid CA100+ Engagements Continue

Engagement to date with ArcelorMittal has led to a 30% carbon emission reduction target for its European operations by 2030, and for carbon neutrality for 2050. A follow-up meeting at the beginning of July sought commitments to global targets for 2030 and 2050. At the National Grid meeting, the Forum's objectives were for greater clarity on when the company will set scope 3 targets, and a commitment to report on climate lobbying and alignment with trade industry positions.

The meeting with ArcelorMittal resulted in a commitment for a group 2030 carbon emission reduction target to be disclosed in a report released later this year. This had been delayed due to repercussions from the Covid-19 pandemic. At a collaborative meeting with National Grid representatives, Cllr Rob Chapman, LAPFF vice-chair, raised a number of areas, including the provision of electric vehicle charging stations. The company had previously identified this as the most positive area of 'value change' for shareholders, but progress on this has been slow. For setting scope 3 targets, the challenge for the company, which has been proactive in the UK for aiming for a carbon-neutral grid by 2025, in its US gas and electricity distribution operations. Following up on a LAPFF question to the AGM, the company committed to look at disclosing company positions on direct and indirect lobbying.

As joint-lead investor, LAPFF sent letters to the chairs of both companies, providing information on the new Climate Action100+ Net Zero Benchmark which will rank companies from 2021 onwards. The benchmark builds on Taskforce on Climate Related Financial Disclosure (TCFD) recommendations and looks at the most significant aspects of companies' corporate strategy related to climate. The companies were asked to work toward providing disclosures consistent with the framework; align with net zero by 2050 or sooner; and work with companies on action plans. A response was requested for October.



### LAPFF joins other investors on anti-deforestation push

The impact of deforestation on climate change is a growing concern. LAPFF has worked with other investors to push the Brazilian government to stem deforestation in the Amazon. At a meeting with Tesco, one objective was for the company to set out how it aimed to achieve its target of fully recyclable packaging by 2025.

The investor coalition drafted and co-signed a letter to the Brazilian government and held a call hosted by Storebrand to encourage better protection of the Amazon.

LAPFF's meeting with **Tesco** discussed how the company's meat supply chain might contribute to deforestation through its supplier, JBS, which received a lot of media attention on this issue. The soy, which is used to feed the cattle eventually purchased by Tesco as meat, is targeted by the campaign. This issue has raised

the complicated nature of commodity supply chains and why it is important to conduct effective environmental and human rights due diligence on the entire supply chain, not just first or second tier suppliers.

The Tesco meeting also addressed the problem of plastics in the supply chain. Hygiene requirements resulting from Covid-19 have forced Tesco to re-orient its short-term efforts to reduce packaging. However, the company has retained its long-term strategy and will continue to work on rolling it out.

The investor coalition appears to have helped drive proposed legislation on stemming deforestation in supply chains. LAPFF has drafted a consultation response to DEFRA draft legislation<sup>1</sup> designed to prevent forests and other natural areas from being converted illegally into agricultural land. The legislation would require a number of larger companies to ensure their 'forest risk' commodities have been produced legally.

<sup>1</sup> <https://consult.defra.gov.uk/eu/due-diligence-on-forest-risk-commodities/>

## COMPANY ENGAGEMENT

### LAPFF engages further on climate finance

For much of this year, LAPFF has engaged with major asset managers and insurers on their climate change activities. The goal is to ensure they gain awareness of the impact the insurance side of their businesses does - and can - have on climate change.

So far, the Forum has engaged with eight of the eleven companies contacted. This quarter, LAPFF engaged with **HSBC** and **Allianz**.

Overwhelmingly, engaged companies see the investment aspect of their businesses as more relevant to tackling climate change, with little or no thought given to the role their insurance sides can play. That said, those companies offering property and casualty insurance agree this business is vulnerable to climate change, more so than the health and life insurance lines. However, one company noted that health and life insurance might be equivalently - or even more - affected in future. Only one company representative recognised and spoke about the companies' impact on climate change rather than just the impact of climate change on their business.

LAPFF will work to set up meetings with the remaining three companies: Lloyds Banking Group, Aviva Group, and Berkshire Hathaway. When this initial round of engagements has been

completed, the meeting information will be assessed to determine new objectives to take this work forward.

### Tailings Dam engagement reaches milestone

Since February 2019, LAPFF has joined in the investor initiative on tailings dam safety to ensure that collapses - such as those in Mariana and Brumadinho, Brazil - do not occur again.

There have been various sub-initiatives stemming from the over-arching project established by Adam Matthews from the Church of England Pensions Board and John Howchin from the Swedish Council of Ethics to the AP Funds. One such initiative was a tripartite relationship between Principles for Responsible Investment (PRI), UN Environmental Programme (UNEP), and International Council on Mining and Metals (ICMM) to establish a Global Tailings Standard. The Standard was launched on 5 August with over 1,200 webinar participants.

While affected communities were consulted in the drafting of the Standard, they were concerned that their input was not incorporated adequately. A number of investors also raised concerns about the lack of an independent body to monitor its implementation. These points will likely continue to be areas of focus as the Standard is rolled out.

### LAPFF ramps up engagement on supply chain due diligence

Between the Boohoo scandal in Leicester, the supply chain component of the Modern Slavery Act, and the proposed deforestation in the supply chain law, UK investors face supply chain challenges from several quarters. LAPFF has engaged with a number of other investors to explore initiatives that address supply chain concerns.

During the quarter, LAPFF representatives joined a supply chain due diligence workshop hosted by the newly independent Workforce Disclosure Initiative. Attendees discussed what companies and investors can do to improve workplace standards at supplier facilities. LAPFF also met with Andrew Adams at CCLA to discuss joining an investor coalition to promote compliance with the Modern Slavery Act. This would be in addition to the Forum's participation in Rathbone's engagement with companies that fail to adhere to Modern Slavery Act requirements. LAPFF is also working with other investors to stem deforestation in company supply chains, as mentioned above.

The details of the CCLA engagement are to be decided, and the LAPFF consultation response on the proposed law on deforestation in the supply will be shared when complete. The Forum also held a



Garment workers overcrowded into the back of a truck, commuting home after work, Phnom Penh, Cambodia

## COMPANY ENGAGEMENT

webinar on environmental and human rights due diligence which covered all the issues above.

### Cybersecurity Engagements Underway

The LAPFF membership increasingly recognises the variety of business risks that can stem from companies' cybersecurity failures. In response members expressed interest in engaging further on this issue. Consequently, LAPFF has begun a round of engagements with transport and logistics companies, which can be particularly vulnerable to cyberattacks, to assess their cyber resilience.

Letters have been sent to Bunzl Plc, AP Moller-Maersk, Wincanton Plc, Expeditors International of Washington Inc. and C.H. Robinson Worldwide Inc. Meetings have been conducted with Clipper Logistics Plc and Royal Mail Plc.

Subsequent engagements with other companies will take place over the coming months.

### LAPFF signs onto ICCR Covid-19 letters to pharmaceutical companies

There has been concern that some pharmaceutical companies might take advantage of the Covid-19 pandemic by implementing unfair distribution or pricing practices. The Interfaith Centre on Corporate Responsibility (ICCR) organised a collaborative engagement between investors and a number of pharmaceutical companies to ensure they are adhering to fair practices in the context of the virus.

Letters to most of the seventeen companies have been sent, with responses received from Sanofi – which is working on a coronavirus vaccine – and Biogen, which is not. AstraZeneca also sent a letter reassuring investors about the company's approach to developing a vaccine. A major focus for the company seems to be reducing the body's overblown immune response to Covid-19, and it is looking both to a vaccine and existing drugs to help deal with this problem. The company is insistent upon following



appropriate clinical trial protocols and ensuring access to the vaccine once it is available.

Lead investors are following up with other companies for either first responses or clarifications to responses. There have also been discussions about engaging with company audit committees to understand how they are addressing coronavirus within their company risk frameworks.

## AGMs & VOTING ALERTS

Although the summer period was quieter with regard to AGMs and voting alerts, there were a couple of notable engagements. Engagements with **SSE** and **National Grid** – both held virtually due to coronavirus – focused on climate practices. LAPFF has engaged with both companies for many years now and for SSE was seeking to continue the long-lasting relationship.

The Forum also issued voting alerts for Homeserve, Experian, and Ryanair. The Homeserve and Experian voting alerts addressed remuneration concerns. This followed on from other LAPFF remuneration alerts this year which coincided

with the remuneration policy resolutions up for vote in 2020 at many UK companies. The Ryanair voting alert raised concerns about the company's response to the Covid-19 pandemic.

In preparation for the SSE AGM, Cllr Rob Chapman met with SSE Chief Sustainability Officer, Rachel McEwen, who thanked LAPFF for its helpful engagement over the years. LAPFF then asked a question about carbon capture and storage at the SSE AGM. The Forum's question was both posted on SSE's website, and CEO Alistair Phillips-Davies mentioned the Forum by name in responding to LAPFF's question in a video.

Questions submitted for the National Grid AGM asked the company to commit to disclosing consistency or otherwise between corporate climate change policies and the positions taken by

trade associations to which the company belongs. The company was also pushed on its delayed setting of scope 3 carbon emission reduction targets. The company response was published on its website, indicating that it would provide information on scope 3 targets in October and a commitment to look at lobbying disclosure would follow in a subsequent meeting.

Ms McEwen also sits on the Scottish Just Transition Commission, so Cllr Chapman asked her if she would be willing to talk about her participation in this Commission with LAPFF. Given the Covid pandemic, it is not clear when or how this communication will happen, but she has agreed to speak to LAPFF on the just transition. For National Grid, the next 'call in' point will be its October ESG day.



## POLICY ENGAGEMENT AND CONSULTATION RESPONSES



### SUBSTANTIAL IMPROVEMENTS

**ArcelorMittal** issued a press release at the end of September announcing a group-wide target to be carbon neutral by 2050. Testing of technology to reach this goal will include a direct reduced iron – electric arc facility for carbon-free steelmaking to be up and running in Hamburg by 2023.

A meeting with Martin Scicluna, the chair of **JS Sainsbury** provided detail underpinning the company's net zero by 2040 target, announced since the last meeting with LAPFF. The discussion covered aspects of scope 3 emissions such as incentivising the use of electric vehicle for deliveries and by customers. The meeting also covered the response to the pandemic including doubling the companies' on-line sales and a focus on employee engagement. Progress towards the plastic reduction goal of 50% by 2025 was explored in addition to management of deforestation within cattle and soy supply chains.

### POLICY ENGAGEMENT

#### IIGCC meeting

A LAPFF representative participated in an Institutional Investors' Group on Climate Change (IIGCC) webinar on the proposed EU Carbon Border Adjustment mechanism. LAPFF has not taken a formal position, but was able to explain how this has been a central element of engagement with ArcelorMittal to date, particularly with the strong and

long-held support the chair, Lakshmi Mittal, has voiced for such a mechanism. Discussions with CA100+ co-lead investors for utility companies and IIGCC have continued over the past couple of weeks, around a potential response to Ofgem on its 'RIIO-2 draft determinations'. These determinations set out Ofgem's 'approach to ensuring energy transmission network companies have sufficient revenue to run an efficient network'. The original intention was for a short note of concern from investors about risks if investments into the grid are insufficient for companies to fulfil their net zero commitments. However, to ensure a balanced approach, not favouring either the company or regulator's position, the response will contain a more general call on Ofgem to ask the companies to set out net zero plans.

### CONSULTATION RESPONSES

LAPFF has submitted a number of consultation responses during the quarter. One was a consultation on the future of audit. Of note is that Baroness Sharon Bowles appears to have run with LAPFF's IFRS engagement, submitting a long list of Parliamentary questions on audit company practice, at least one of which has yet to be answered.

The Forum also responded to a Department of Transport consultation on the phasing out of vehicles powered by fossil fuels. A third submission went to the House of Commons Select Committee Inquiry on Decarbonisation and Green Finance.

### BEIS Select Committee

LAPFF responded to the BEIS Select Committee Inquiry following up on its 2019 Future of Audit Inquiry. The Committee addressed progress on implementing the findings of

- the Kingman Review into replacing the Financial Reporting Council and
  - the Competition and Markets Authority Review of the audit market.
- The LAPFF response was both favourable to those reviews and concerned at the slow progress in their implementation.

On the subject of the Brydon Review, LAPFF commented that *"The Brydon Review is disappointing and confuses and distracts from the sound recommendations of the BEIS Committee report"* and *"LAPFF believes that the best driver of audit quality is implementing existing law properly which the Committee concluded the large accounting firms have been avoiding. Brydon has ended up in the same muddle on the same issues that the large accounting firms were muddled over in giving evidence to the Committee."*

LAPFF concluded the only change to the law should be to implement the structural reforms of the Financial Reporting Council (FRC) from the Kingman Review.

On the Committee's question whether *"audit reform [can] help track progress made by companies in meeting the UK's Sustainable Development Goal commitments and in particular Net Zero"*, LAPFF flagged this as an area where 'greenwash' can already be seen. Some companies and sectors give the appearance of progress towards net zero because such a target provides scope to exaggerate deducted elements to achieve the 'net'. This includes loose commitments to plant trees or capture carbon at some time in the future.

LAPFF also expressed concern that the longstanding problems with the auditing profession, mean auditors would have a negative effect on getting reliable financial information. In the case of Wirecard, NMC Healthcare (the FTSE 100 company now in administration) and Patisserie Valerie, it is clear that the auditors could not properly verify cash in the bank.

## CONSULTATION RESPONSES

### The Financial Reporting Council's response to International Accounting Standard 1 ('IAS 1') consultation

Further to the UK's exit from the European Union, all new international accounting standards will have to be endorsed by the Secretary of State and then Parliament. The International Accounting Standards Board (IASB) consulted on a revision to the key standard IAS 1 to which the FRC drafted a response giving the UK's position, which is itself open for comment.

The proposed standard is wrong in several respects. The words describing the numbers required are incorrect. The purpose of the accounts is wrong, which in UK law is for shareholder and creditor protection. It misses the inter-relationship between profits, capital and going concern. It also puts the emphasis on management intent deciding whether a company is a going concern or not. The actual driver is whether the company is and can be funded by cash flow generated or by new or replacement external sources of funding. The LAPFF response to the FRC points out these issues and focuses on the BEIS Select Committee Inquiry into the Future of Audit which had already concluded in the correct way.

The LAPFF response has been copied to the Secretary of State, the Law Commission and the BEIS Select Committee.

A key problem is the IASB has accommodated the false construct of an 'expectations gap' regarding the quality of accounts; thus giving auditors an excuse to not look for fraud. As frauds may impinge profits, capital and going concern, a standards system which seeks to obfuscate or avoid the issue of fraud will also have to obfuscate the very elements it affects; profits, capital and going concern.

The recent High Court case against Grant Thornton has been upheld by the Court of Appeal. That makes the auditor duty in respect of profits, capital and going concern unequivocal where there is fraud.

### 'Decarbonisation and Green Finance' The Treasury Select Committee call for evidence

LAPFF made a submission to the Committee drawing heavily on the fact that renewables have become cheaper than fossil fuel sources.

There was a premise that the transition to a lower carbon economy would be costly. But with the cost of renewables below the cost of currently low fossil fuel prices, there is an economic incentive to invest in greener energy sources, with not only the low carbon benefit but also less volatility and other problems associated with carbon and methane emissions in the distribution of fossil fuels.

A second premise was that a move to renewables would be at the pace of the fossil fuel companies transitioning their businesses. The International Energy Authority's models have tended to be influenced by such thinking. However, the pace of investment in solar power, offshore and onshore wind as well as storage by batteries and electrolysis for hydrogen production have led the way, with some fossil fuel assets becoming stranded earlier than anticipated.

It therefore appears that the negative cost of transition will not be the cost of the new energy system but the demise of the old one, stranded assets, and stranded debt and equity funding in the fossil fuel sector.



The US coal mining industry is a case in point. Peabody Energy, the USA's largest coal mining company, which had a market capitalization in excess of \$20bn, now has debt of \$10bn and a market capitalization of \$250m having had two Chapter 11 bankruptcies to get there. Exxon, formerly the largest US listed company, has recently fallen out of the Dow Jones Index.

A transition that will benefit market entrants with new technologies and affect existing operators negatively, needs to be handled in a rational and balanced way.

A risk therefore is backdoor ways that maintain the fossil fuel industry via grants and other assistance. LAPFF cited that state support for carbon capture and storage (CCS) for the power sector. This model has seen CCS used to keep coal power plants open rather than close and replace them with renewables.

### Response to the FCA consultation on proposals to enhance climate-related disclosures by listed issuers

LAPFF responded to the FCA's consultation on climate-related disclosures. The FCA proposed introducing a new rule for UK premium listed companies, requiring them to state whether they comply with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) and to explain any non-compliance.

The Forum strongly supports the introduction of mandatory carbon emissions and risk reporting. The Forum also supports the recommendations of the TCFD and has long promoted mandatory climate risk reporting.

The Forum's response therefore welcomed the proposed rule as greater disclosure would help investors fulfil their stewardship duties and also enable more informed decisions about capital allocation. LAPFF did note some concerns about the effectively voluntary nature of the rule. While companies do face challenges in being TCFD compliant, the potential scale of the value at risk and urgency of the climate emergency demand a mandatory approach. The Forum would therefore suggest if the rule is to be brought in on a 'comply or explain' basis, that the FCA also announce its intention to make the rule

## WEBINARS AND MEDIA COVERAGE

mandatory after a set date (e.g. in three years' time). This would provide a clear signal to the market and give all listed companies time to be compliant. It would also ensure that the benefits and objectives clearly outlined in the consultation document are not limited to one segment of the market.

### Response to IIGCC Paris aligned investment initiative: Net zero investment framework for consultation

The IIGCC have drafted a net zero investment framework for consultation. The Forum congratulated the IIGCC on producing the document, which is likely to be extremely helpful to many LAPFF members.

The Forum made a few general comments aimed at strengthening the framework. For example improving the focus on how asset owners can better ensure their managers are meeting their climate priorities, having more of a focus on the just transition and emphasising the need to be cautious of company claims around carbon capture and storage.

### MEDIA COVERAGE

The Forum received a range of coverage on its press releases related to Rio Tinto and Juukan Gorge. You can find these press releases and others on the [press section](#) of the new LAPFF website, along with related press articles about LAPFF's involvement in the Juukan Gorge engagement.

LAPFF was also referred to [in this article](#) on Tesla and this article on the Forum's participation in CCLA's collaborative engagement on the Modern Slavery Act.

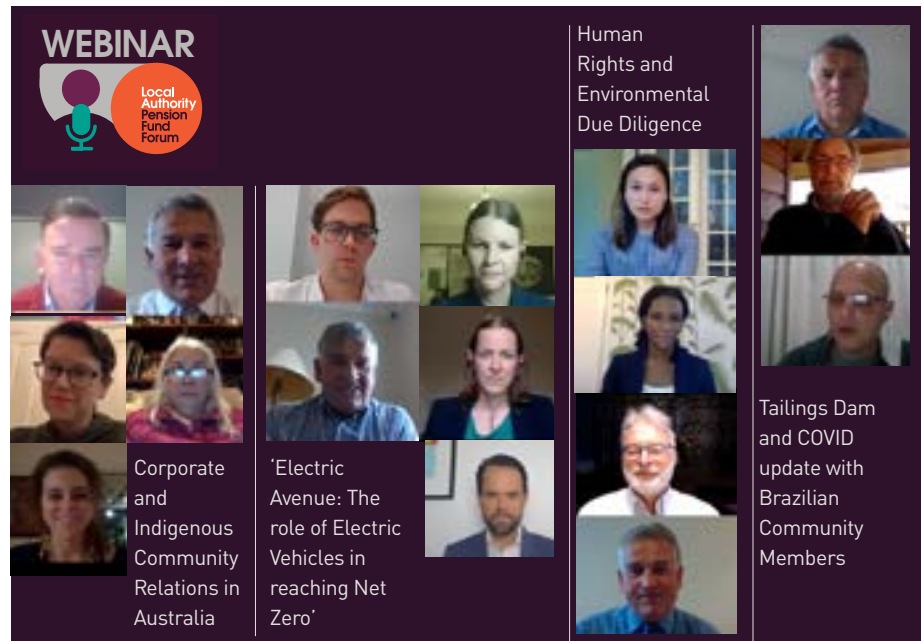
The Forum made it into [Reuters](#) and the [India Times](#) with its call to ban new petrol, diesel and hybrid cars by 2025.

[IPE](#) cited LAPFF's concern about International Accounting Standard (IAS) 1.

### NETWORKS AND EVENTS

#### LAPFF webinars

During the Covid pandemic, the Forum offered a series of webinars on topical responsible investment issues. LAPFF held successful webinars on electric



vehicles; developments on Covid-19; and updates on tailings dams, hearing from affected community members from Brazil, and environmental and human rights due diligence, among others.

The webinar on electric vehicles saw a vigorous discussion on the contribution of this technology to the UK's net zero commitment. Speakers contributed from the USA west coast, Berlin and London. Speakers included Jakob Thomä, co-founder of the 2 degree investing initiative from Berlin; Katie Fehrenbacher, Senior Writer, Transportation, GreenBiz Group from the USA west coast and Sandra Roling, Head of EV100 and Colin McKerracher of Bloomberg, from London.

LAPFF has established a productive working relationship with the Australasian Centre for Corporate Responsibility (ACCR) in working on the Rio Tinto Juukan Gorge engagement. The Forum has also been liaising with representatives of Brazilian communities to establish a more consistent and two-way engagement framework with community members.

In respect of both relationships, LAPFF hosted webinars to highlight issues of concern. The Forum and ACCR co-developed a webinar featuring prominent aboriginal community leader, Marcia Langton, and another well-respected community leader, Karrina Nolan. Both Marcia and Karrina shared their thoughts and concerns on the Rio Tinto Juukan Gorge disaster. LAPFF also contributed to the drafting of shareholder resolutions filed by ACCR with BHP in respect of its approach to engagement

with indigenous peoples, and in relation to Covid-19 and climate.

LAPFF then hosted a webinar with Brazilian community members, Vagner Diniz and Nicolson Resende, who described their challenges in engaging Vale over reparations for tailings dam collapses, tailings dam safety, and company Covid-19 practices. Both Vagner and Nicolson set out a list of asks for investors which LAPFF will review and speak with community members to determine how best to proceed.

Toward the end of the quarter, LAPFF hosted a webinar with three lawyers – Robert McCorquodale, Arianne Griffith, and Anna Kirkpatrick – to hear their perspectives on the need for mandatory environmental and human rights due diligence. All three speakers noted the increasing number of laws in this area and cited their impacts for investors.

LAPFF also had a representative from Investors for Opioid & Pharmaceutical Accountability (IOPA) participate in a call. A recent call noted that the opioid crisis worsened during the Covid-19 pandemic, with many people thrown by the isolation of lockdown and other restrictions that mean they do not receive the support they need.

The Forum has re-committed to supporting the Access to Nutrition Index. Cllr Caron raised nutrition in the meeting with Tesco because good health and nutrition are deemed to be important factors in stemming the severe impacts of Covid-19.



## COMPANY PROGRESS REPORT

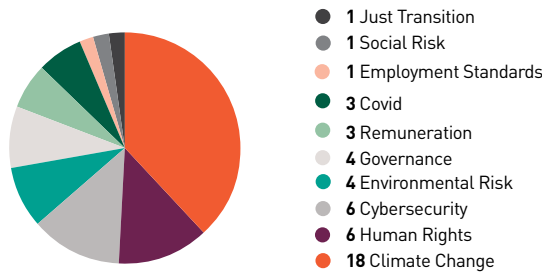
27 companies engaged over the quarter during 38\* engagements

\*The table below is a consolidated representation of engagements so reflects the number of companies engaged, not the number of engagements

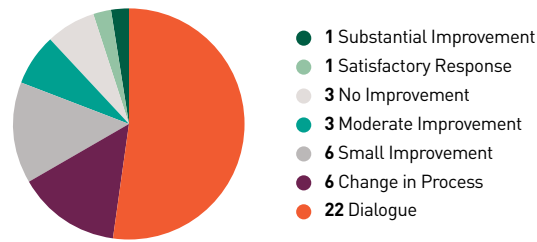
Company	Activity	Topic	Outcome	Position Engaged	Domicile
3i GROUP PLC	Meeting	Remuneration/ Climate Change	No Improvement	Chairperson	GBR
ALLIANZ SE	Meeting	Covid/ Climate Change	Change in Process	Specialist Staff	DEU
ANGLO AMERICAN PLC	Sent	Human Rights	Dialogue	Chairperson	GBR
	Correspondence				
AP MOLLER - MAERSK AS	Sent	Other	Dialogue	Chairperson	DNK
	Correspondence				
ARCELOR MITTAL SA	Meeting	Climate Change	Moderate Improvement	Specialist Staff	LUX
BHP GROUP PLC	Meeting	Governance/ Human Rights	Dialogue	Chairperson	GBR
BLACKROCK INC	Sent	Climate Change	Awaiting Response	Exec Director or CEO	USA
	Correspondence				
BT GROUP PLC	AGM	Climate Change/ Environmental Risk	Awaiting Response/ Moderate Improvement	Exec Director or CEO	GBR
BUNZL PLC	Sent	Other	Dialogue	Chairperson	GBR
	Correspondence				
C.H. ROBINSON WORLDWIDE INC.	Sent	Other	Dialogue	Chairperson	USA
	Correspondence				
CLIPPER LOGISTICS PLC	Meeting	Social Risk/ Covid/ Governance	Dialogue/ Satisfactory Response/ Small Improvement	Chairperson	GBR
DELTA AIR LINES INC	Meeting	Climate Change	Moderate Improvement	Specialist Staff	USA
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Sent	Other	Dialogue	Chairperson	USA
	Correspondence				
EXPERIAN PLC	Alert Issued	Remuneration	Dialogue	Chairperson	IRL
HOMESERVE PLC	Alert Issued	Remuneration	Dialogue	Chairperson	GBR
HSBC HOLDINGS PLC	Meeting	Climate Change	Change in Process	Specialist Staff	GBR
NATIONAL GRID PLC	AGM/ Meeting	Climate Change	Small Improvement	Chairperson	GBR
REGIS RESOURCES LTD	Meeting	Climate Change/ Governance	No Improvement	Chairperson	AUS
RIO TINTO GROUP (GBP)	Meeting	Human Rights/ Governance/ Climate Change	Dialogue/ Change in Process/ Small Improvement	Chairperson	GBR
ROYAL MAIL PLC	Meeting	Cybersecurity	Dialogue	Specialist Staff	GBR
SAINSBURY (J) PLC	Meeting	Climate Change/ Environmental Risk	Substantial Improvement	Chairperson	GBR
SSE PLC	Meeting/ AGM	Just Transition/ Climate Change	Change in Process/ Small Improvement	Chairperson	GBR
SUZANO SA	Sent	Environmental Risk	Dialogue	Chairperson	BRA
	Correspondence				
TESCO PLC	Meeting	Environmental Risk/ Governance	Change in Process/ Dialogue	Chairperson	GBR
TULLOW OIL PLC	Meeting	Governance/ Climate Change/ Covid	Change in Process/ Dialogue/ Small Improvement	Chairperson	GBR
VALE SA	Sent	Human Rights	Dialogue	Chairperson	BRA
	Correspondence				
WINCANTON PLC	Sent	Other	Dialogue	Chairperson	GBR
	Correspondence				

# ENGAGEMENT DATA

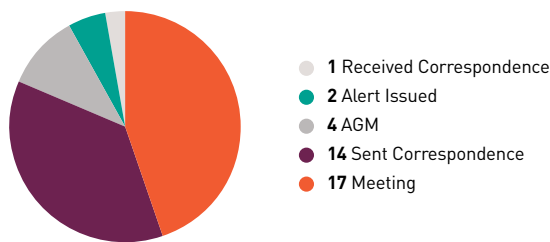
## ENGAGEMENT TOPICS



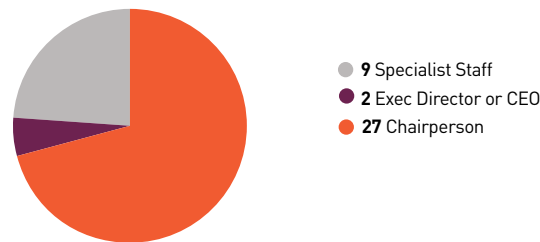
## MEETING ENGAGEMENT OUTCOMES



## ACTIVITY



## POSITION ENGAGED



## COMPANY DOMICILES



## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

### Individual Member Funds

Avon Pension Fund  
Barking and Dagenham Pension Fund  
Barnet Pension Fund  
Bedfordshire Pension Fund  
Bexley Pension Fund  
Brent Pension Fund  
Cambridgeshire Pension Fund  
Camden Pension Fund  
Cardiff & Glamorgan Pension Fund  
Cheshire Pension Fund  
City of London Corporation Pension Fund  
Clwyd Pension Fund (Flintshire CC)  
Cornwall Pension Fund  
Croydon Pension Fund  
Cumbria Pension Fund  
Derbyshire Pension Fund  
Devon Pension Fund  
Dorset Pension Fund  
Durham Pension Fund  
Dyfed Pension Fund  
Ealing Pension Fund  
East Riding Pension Fund

East Sussex Pension Fund  
Enfield Pension Fund  
Environment Agency Pension Fund  
Essex Pension Fund  
Falkirk Pension Fund  
Gloucestershire Pension Fund  
Greater Gwent Pension Fund  
Greater Manchester Pension Fund  
Greenwich Pension Fund  
Gwynedd Pension Fund  
Hackney Pension Fund  
Hammersmith and Fulham Pension Fund  
Haringey Pension Fund  
Harrow Pension Fund  
Havering Pension Fund  
Hertfordshire Pension Fund  
Hounslow Pension Fund  
Islington Pension Fund  
Kingston upon Thames Pension Fund  
Lambeth Pension Fund  
Lancashire County Pension Fund  
Leicestershire Pension Fund  
Lewisham Pension Fund

Lincolnshire Pension Fund  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Merton Pension Fund  
Newham Pension Fund  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire Pension Fund  
Northamptonshire Pension Fund  
Nottinghamshire Pension Fund  
Oxfordshire Pension Fund  
Powys Pension Fund  
Redbridge Pension Fund  
Rhondda Cynon Taf Pension Fund  
Shropshire Pension Fund  
Somerset Pension Fund  
South Yorkshire Pension Authority  
Southwark Pension Fund  
Staffordshire Pension Fund  
Strathclyde Pension Fund  
Suffolk Pension Fund  
Surrey Pension Fund

Sutton Pension Fund  
Swansea Pension Fund  
Teesside Pension Fund  
Tower Hamlets Pension Fund  
Tyne and Wear Pension Fund  
Waltham Forest Pension Fund  
Wandsworth Borough Council Pension Fund  
Warwickshire Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Westminster Pension Fund  
Wiltshire Pension Fund  
Worcestershire Pension Fund

### Pool Company Members

Border to Coast Pensions Partnership  
Brunel Pensions Partnership  
LGPS Central  
Northern LGPS  
London CIV  
Wales Pension Partnership

Bath & North East Somerset Council		
MEETING	AVON PENSION FUND COMMITTEE	
MEETING	11 December 2020	Agenda Item Number
		13
TITLE:	Update on Legislation	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Current matters affecting LGPS administration February 2020		
Appendix 2 – Copy of final response to MHCLG consultation on ‘Removing Age Discrimination’		

## 1 THE ISSUES

- 1.1 The purpose of this report is to update the Pensions Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and any proposed regulatory matters that could affect scheme administration. An updated list is included in Appendix 1.
- 1.2 In addition, APF have also responded to a consultation that was issued by MHCLG on ‘Removing Age Discrimination’ which is included as Appendix 2.

## 2 RECOMMENDATION

The Committee is asked to;

- 2.1 Note the current position regarding the developments that could affect the administration of the fund
- 2.2 Note the response sent to the MHCLG consultation on ‘Removing Age Discrimination’.

### 3 THE REPORT

The below items have been selected from Appendix 1 as we believe them to be key items of interest for committee members:-

#### 3.1 HMT Public Sector Exit Payments Cap / MHCLG Consultation on Further Reform to Exit Payments

- (1) The government first consulted on plans to cap exit payments in the public sector in 2015 and subsequently launched a further consultation in April 2019 the key points of which were:-
  - a) A maximum exit payment of £95,000 which was to apply to a wide range of public sector employers, however, excluding some LGPS employers such as Universities and Colleges.
  - b) The cap was to include the value of any early retirement strain costs payable as a result of the exit.
  - c) There would be a provision for the cap to be waived in some exceptional circumstances.
- (2) In July 2020, the Government published its response to this consultation, confirming their intention to proceed with the implementation of the cap which remained set at £95,000 with no intention for this amount to be index linked going forward.
- (3) On 7 September 2020, MHCLG launched their own consultation on the changes required to the LGPS regulations to accommodate the cap, but also proposals for further reforms to exit payments for the LGPS only, which are:-
  - a) The actual pay used in severance calculations will be limited to £80,000;
  - b) The maximum severance (including statutory redundancy pay) will be limited to 3 weeks' pay per year of service or 15 months' pay, whichever is the lower
  - c) The amount available for any strain cost will be reduced by the statutory redundancy payment in all cases
- (4) On 15 October 2020, the regulations to implement the £95k cap, across the whole of the public sector, were signed and come into force on 4 November 2020. However, the LGPS amendment regulations required to implement the £95k cap are not likely to be implemented before 2021.
- (5) This leaves us in a position of legal uncertainty from the 4 November 2020 until such time as the LGPS amendment regulations come into force. APF are currently awaiting further guidance from the LGA and MHCLG on how to proceed with any cases that are caught by the cap and are also in the process of obtaining their own legal advice.

#### 3.2 McCloud and Sargeant Court Case

- (1) This case concerns the transitional protections provided to older members of the judges and firefighter pension schemes following their reform in 2015 as part of the public sector pension scheme changes.
- (2) In December 2018, the Court of Appeal found the transitional protections to be unlawful on the grounds of age discrimination



- (3) In June 2019, the Supreme Court denied the Government's request for an appeal and as such the case has been returned to an Employment Tribunal for remedy.
- (4) In July 2019, the Chief Secretary to the Treasury announced in a written statement that 'the government believed that the difference in treatment will need to be remedied across all public sector schemes, including the LGPS'.
- (5) This is likely to have a significant impact on the administration team.
- (6) The SAB agreed to establish two working groups, one to assist MHCLG in considering any areas of policy not centrally determined and the second to consider the challenge of implementing and communicating any changes.
- (7) In July 2020, MHCLG launched a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS. The consultation closed on 8 October 2020 and we await their response which is expected in early 2021.
- (8) In the meantime, APF will be looking to carry out a data collection exercise with their employers to ensure any additional hour change and service break data is available for members that will be covered by the changes, as this data will be required to apply the remedy once it has been decided.

### 3.3 LGPS SAB Cost Management Process

- (1) The Public Service Pensions Act 2013 set out that public sector schemes were to be monitored to ensure that they are affordable and sustainable. Unlike the unfunded schemes LGPS also has a built in check driven by the Scheme Advisory Board
- (2) In September 2018 HM Treasury announced that as a result of scheme valuations all public service pension schemes, including the LGPS had breached the 2% cost cap floor which would lead to member benefits improvements. However, the SAB has its own cost management which allowed any changes to benefits to be taken into account before the HM Treasury process begins.
- (3) A proposed package of changes was put forward to SAB for approval with the intention that all scheme changes would be effective from 1 April 2019 and will apply until at least March 2023.
- (4) However, in January, the Government announced a pause in the cost cap process due to uncertainty caused by the McCloud and Sargeant court ruling on elements of the 2014/15 scheme reforms and subsequently the SAB confirmed that they would also be pausing their own cost management process until the effects of the outcome of this case is clear.
- (5) Therefore, scheme changes were not put in place for 1 April 2019 and the LGPS SAB Cost Management Process continues to be paused until the effects of the outcome of the McCloud and Sargeant Judgement is clear.
- (6) When this process resumes, if changes are still required, this will have a significant impact on the administration team.
- (7) On 16 July 2020, the Government announced that the cost control mechanism pause would now be lifted, for the unfunded public sector schemes, and the process restarted taking into account the costs of the McCloud remedy. We await further confirmation from SAB as to the position in relation to the LGPS process which is likely to be clarified in 2021 following the outcome of the McCloud consultation.

## 4 FINANCIAL IMPLICATIONS

- 4.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates.
- 4.2 Any other specific financial implications will be reported as appropriate.

## 5 RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

## 6 CLIMATE CHANGE

- 6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 7 OTHER OPTIONS CONSIDERED

- 7.1 None

## 8 CONSULTATION

- 8.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Kate Shore, Technical &amp; Compliance Advisor; Tel 01225 395283</i>
<b>Background papers</b>	<i>LGA Bulletins SAB Meeting Minutes National Technical Group Meeting Minutes MHCLG Consultation Document</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## List of current developments affecting or expected to affect Scheme Administration - November 2020

Organisation	Item	Details	Status
HMT / MHCLG	Public Sector Exit Payments Cap / Consultation on Further Reform to Exit Payments	<p><b>Risk Register Item – R53</b></p> <p><b>Latest Updates:-</b></p> <p>As you can see from the latest updates below, this is fast moving situation which is changing on a weekly, sometimes daily, basis. As such, any further changes will be updated verbally at the meeting.</p> <p><b>On 30 Oct 2020</b>, SAB published its legal advice together with a commentary for LGPS administering authorities and scheme employers, which can be found as follows:-</p> <p><a href="https://www.lgpsboard.org/index.php/structure-reform/public-sector-exit-payments">https://www.lgpsboard.org/index.php/structure-reform/public-sector-exit-payments</a></p> <p><b>On 28 Oct 2020</b>, a letter was sent from Luke Hall, the Local Government minister, to all LGPS administering authorities in respect of the implementation of the £95k cap from 4th November recommending a course of action to take in the interim period which is that LGPS members caught by the 95k cap, who would normally be forced to take a fully unreduced pension under regulation 30(7), should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost.</p> <p><b>On 15 October 2020</b>, the legislation implementing the £95k cap on exit payments was signed and therefore will come into force on 4 November 2020. This means that the £95k cap will come into force in advance of the changes to LGPS regulations proposed by MHCLG in the further reform consultation, which will amend the LGPS regulations to provide for the payment of reduced pensions in whole (as is the current provision) and in part. As such, from 4 November 2020 up to the enactment of the MHCLG further reform proposals, which is expected in early 2021, there is a position of legal uncertainty. This is due to the apparent discrepancy between the obligations on scheme employers under the Cap Regulations to limit strain cost payments, and the requirement for administering authorities to pay unreduced pensions to qualifying scheme members under existing LGPS regulations. The SAB has requested the views of Counsel on the risks of challenge to administering authorities and the obligations of scheme employers during this period of legal uncertainty.</p>	Updated

Organisation	Item	Details	Status
		<p><b>On 7 September 2020</b>, MHCLG launched a consultation on changes to the Local Government Pension Scheme (LGPS) and Discretionary Compensation Regulations. The consultation covers the required changes to compensation and pension regulations to implement both the £95K exit payment cap as well as public sector exit payments further reform proposals issued by HMT in 2016. The latter proposals were left to individual departments to implement rather than being via central HMT Directions, currently no other part of the public sector has any 'live' proposals to enact the further reform proposals. The MHCLG consultation closes on the 9 November and APF are in the process of formulating a response. At this stage there have been no proposals to implement an exit payment recovery process that was also consulted on in 2015.</p> <p><b>Previous Updates:-</b></p> <p><b>On 21 July 2020</b>, HM Treasury published the Governments response to the consultation on restricting exit payments in the public sector. This was followed by the publication of draft regulations which include a list of employers who will be covered by the cap, which is set at a total of £95,000. Exit payments include redundancy payments, severance payments, pension strain costs and other payments made as a consequence of termination of employment.</p> <p>The Regulations will need to be approved by both houses of parliament and will come into force 21 days after that process is complete. We understand it is the intention that the cap will be in force for the end of the 2020 calendar year.</p> <p>This will affect LGPS members in England and Wales who currently qualify for an unreduced pension because of redundancy or efficiency retirement. It will also apply to members whose employer agrees to the early release of their benefits without actuarial reduction, apart from ill health retirement which is excluded. If the cap is breached, then the member may have to take a reduced pension. MHCLG is looking at options to introduce choice to allow members in this position to opt for a deferred pension instead. We also expect the introduction of a standard strain cost calculation so that the cap will apply equally to members across the country. We are expecting a consultation on changes required to the LGPS regulations imminently.</p> <p><b>Background:-</b></p> <p>The government first consulted on plans to cap exit payments in the public sector in 2015.</p> <p>On 10 April 2019, HMT launched a consultation called 'Restricting exit payments in the public sector:</p>	

Organisation	Item	Details	Status
		<p>consultation on implementation of the regulations'. The key points in this latest consultation were as follows:-</p> <ul style="list-style-type: none"> <li>• No change from the earlier proposal that the maximum exit payment will be £95,000.</li> <li>• The cap will apply to a wide range of public sector employers, including employees of councils in England and Wales, fire authorities, police forces, academies and maintained schools.</li> <li>• The £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will therefore be severely restricted in some cases.</li> <li>• Certain employers in the LGPS e.g. Universities and Colleges appear not to be covered which will means members would be treated differently within the LGPS depending on their employer on exit.</li> <li>• As previously indicated, there will be provisions for the cap to be waived in some circumstances. However, the tone of the consultation makes clear that any waiver is expected to be the exception rather than the norm.</li> </ul> <p>It was expected that MHCLG will run a separate consultation, which will cover amongst other things the agreement and implementation of a common costing methodology and factors for strain payments.</p> <p>HMT received approximately 600 responses, one of which was from APF, and it was expected that they would publish their response in the autumn of 2019 and look to introduce the cap no sooner than 1 April 2020.</p>	

Organisation	Item	Details	Status
Government	McCloud Judgment	<p><b>Risk Register Item – R63</b></p> <p><b>Latest Update:-</b></p> <p>On 8 October 2020 APF issued their response to the consultation which is attached to Item 1 as Appendix 2.</p> <p>The SAB response to MHCLG's consultation is available to view in the following location:-</p> <p><a href="http://lgpsboard.org/images/PDF/letters/SAB_FINAL_MCCLLOUD_RESPONSE.pdf">http://lgpsboard.org/images/PDF/letters/SAB_FINAL_MCCLLOUD_RESPONSE.pdf</a></p> <p>The notes from the SAB meeting in August advised that their response would include representations to allow the LGPS regulations to be on the statute book ahead of those of the unfunded public service pension schemes, where the coming into force date is expected to be Spring 2022. LGPS remedy regulations will not have to wait for changes in primary legislation so different timescales should be possible. Getting LGPS McCloud regulations in place sooner will give all parties more opportunity to put processes in place before they come into effect in 2022. The Board also agreed that work should commence on central guidance on how the regulations are to be applied and how individual cases of poor or missing member data should be handled.</p> <p><b>Previous Updates:-</b></p> <p><b>On 16 July 2020</b>, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS, see link <a href="#">here</a>. In summary, the consultation proposes that qualifying members, all who were active in 2008 scheme on 31st March 2012 and accrued benefits in the 2014 scheme without a disqualifying break, would be protected by the application of a revised underpin which will be applied retrospectively for those who have already left the scheme. The consultation runs until 8th October 2020 and we are currently in the process of formulating a response.</p> <p><b>At the SAB meeting in February</b>, the Board agreed to create two working groups to help implement the outcome of the McCloud judgment for the LGPS. These will be a small policy group to help MHCLG consider areas of policy not determined by HMT and a larger implementation group made up of practitioners, member representatives, actuaries, software providers and employers. They will</p>	Updated

Organisation	Item	Details	Status
		<p>consider the challenges of implementing and communicating the scheme changes. Due to differences in LGPS transitional protection, MHCLG are planning to undertake an LGPS specific consultation on the regulatory changes required to address McCloud. We are expecting the consultation to begin late June / early July 2020.</p> <p><b>Background:-</b></p> <p>The McCloud/Sargeant cases concern the transitional protections provided to older members of the judges and firefighter pension schemes following their reform in 2015 as part of the public sector pension scheme changes. In December 2018, the Court of Appeal found the transitional protections to be unlawful on the grounds of age discrimination. In June 2019, the Supreme Court denied the Government's request for an appeal and as such the case was returned to an Employment Tribunal for remedy.</p> <p>In July 2019, the Chief Secretary to the Treasury announced in a written statement that 'the government believed that the difference in treatment will need to be remedied across all public sector schemes, including the LGPS'. As such, the SAB agreed to establish two working groups, one to assist MHCLG in considering any areas of policy not centrally determined and the second to consider the challenge of implementing and communicating any changes. A consultation, including draft legislation, is expected in the Spring, although there is likely to be a need for changes in primary legislation that may take some time.</p> <p>You can find a dedicated 'Cost Management' page on the SAB website as follows:-</p> <p><a href="http://lgpsboard.org/index.php/structure-reform/mccloud-page">http://lgpsboard.org/index.php/structure-reform/mccloud-page</a></p>	

Organisation	Item	Details	Status
SAB	LGPS Cost Management Process	<p><b>Risk Register Item – R47</b></p> <p><b>Latest Update:-</b></p> <p>The notes from the SAB meeting in August advise that, unlike the HMT arrangement, there is no compulsion on SAB to include McCloud costs in their cost management arrangement. However, it was agreed that no decision should be taken until the HMT Direction, on how McCloud costs are to be considered, is published early next year. In principle, the Board agreed that the LGPS cost cap arrangement should be un-paused in the same way as the HMT arrangement, but no action should be taken until more details are known.</p> <p>At the National Technical Group in October, MHCLG further updated that once the McCloud remedy is agreed, the value of scheme member benefit is likely to increase for many members. The cost control mechanism was designed to include the cost of these and they will be included in the completion of the cost control process. How best to do this in the LGPS will be decided once the remedy details are decided.</p> <p><b>Previous Updates:-</b></p> <p>On 16 July 2020 the Government made an announcement confirming that the cost control mechanism pause will be lifted, and the cost control element of the 2016 valuations process will be completed for all public service pension schemes. The objective would be to complete the process by next year, taking into account the cost of the proposals to remedy age discrimination as set out in the McCloud consultations which were published that same day. The SAB are currently considering its position on the SAB employer cost cap process now that the proposals to rectify age discrimination for the LGPS are available.</p> <p>In April 2020 four unions including the FBU and the GMB filed court proceedings against the Government claiming that the pause in the cost control mechanism is unlawful. The unions are arguing for an improvement in member benefits as a result of the valuation results.</p> <p>On 17 October 2019 GAD issued a formal request for valuation data as at 31 March 2019 as part of the cost management process that is due to be carried out in 2020. APF data was submitted to GAD</p>	Updated



Organisation	Item	Details	Status
		<p>ahead of the deadline of 18 November 2019.</p> <p>On 14 May 2019 SAB published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations.</p> <p><b>Background:-</b></p> <p>One of the Board's statutory duties, under the regulations, is to introduce and maintain a process to manage costs in the scheme alongside the process introduced by HM Treasury for all public service schemes. You can find a dedicated 'Cost Management' page on the SAB website as follows:-</p> <p><a href="http://lgpsboard.org/index.php/structure-reform/cost-management">http://lgpsboard.org/index.php/structure-reform/cost-management</a></p> <p>In September 2018, SAB members were provided with a summary of the statement regarding the scheme valuations for all of the public service pension schemes, including the LGPS, which showed that the cost cap floor had been breached and as a result member benefits would need to be improved. SAB therefore put together a working group responsible for agreeing a package of benefit changes to return the scheme to its total target cost, while also looking at employee contributions at the lower end. It was intended that the resultant package would be put to the full SAB for agreement to ensure that scheme changes could be on the statute book by April 2019.</p> <p>However, in January 2019 the Government announced a pause in the cost management process for unfunded public sector schemes due to uncertainty caused by the McCloud court ruling on elements of the 2015 scheme reforms. In February, SAB learned that this applied equally to the LGPS and as such it had no option but to pause its own cost management process pending the outcome of McCloud. As a result there were no changes to benefits planned in respect of the cost cap and instead this situation would be reviewed once McCloud was resolved.</p>	

Organisation	Item	Details	Status
SAB	Good Governance in the LGPS	<p><b>Latest Update:-</b></p> <p><b>At the SAB meeting in August 2020</b>, Hymans updated the Board that draft papers on how the recommendations set out in the Phase II report are to be implemented, will be completed by the end of September 2020. The Board will consider these drafts when it meets in November 2020. If approved, the Board will then consider the process and timing of implementation.</p> <p><b>Previous Updates:-</b></p> <p><b>In April 2020</b>, a virtual meeting of the chairs of the SAB and its two committees was held and it was agreed that Hymans work on Phase III of the Good Governance project should proceed on a limited basis due to COVID-19. They should continue to prepare papers for the SAB's consideration based on discussions already undertaken with the implementation group. However, they should avoid engaging with members of the implementation group, or local government in general at this time.</p> <p><b>In February 2020</b>, the Board agreed that an implementation group, comprising the two former working groups, should be established immediately to prepare a detailed implementation plan for consideration at their next meeting.</p> <p><b>In November 2019</b>, a draft Phase II report into the findings of both working groups was made available to the Board who considered it and agreed that it should be published with comments invited from scheme stakeholders. The report made recommendations for new standards of governance and administration and proposed how they could be measured and assessed independently. The recommendations covered the areas below:</p> <ul style="list-style-type: none"> <li>• general governance</li> <li>• conflicts of interest</li> <li>• representation</li> <li>• skills and training</li> <li>• service delivery for the LGPS function</li> <li>• compliance and improvement</li> </ul> <p>You can find the report as follows:-</p>	Updated

Organisation	Item	Details	Status
		<p><a href="http://lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf">http://lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf</a></p> <p>Comments on the phase II report were invited to be sent and APF issued a response to this in January 2020 concluding that overall, we were still unsure of the specific problems attempting to be addressed through some of the proposals. It seemed that another layer of governance was being added because there are some local issues around the effectiveness of Local Pension Boards or Fund Administrations. Maybe the Pension Regulator could intervene and deal with these issues as demonstrated in its own recent engagement report. Within the recommendations there were still a lot of 'shoulds' or 'coulds' whereas regulation and a definitive set of standards monitored by the Pension Regulator would be more effective.</p> <p><b>In April 2019</b>, Hymans launched the Good Governance Project Survey to capture as many views as possible from those working within the LGPS with the findings forming the basis for a report which was presented to the SAB in July 2019, you can find the report as follows:-</p> <p><a href="http://lgpsboard.org/images/PDF/GGreport.pdf">http://lgpsboard.org/images/PDF/GGreport.pdf</a></p> <p>Work to develop a detailed plan then began and two working groups were established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.</p> <p><b>Background:-</b></p> <p>Previously known as the separation project which was developed to identify the potential benefits of further increasing the level of separation between the host authority and scheme manager role. In November 2018, the project was awarded to Hymans Robertson and was also re-named to "Good Governance in the LGPS" which better reflected the aims and ambitions of the project to enhance the delivery of the function within local authority structures.</p>	

Organisation	Item	Details	Status
SAB	Responsible Investment	<p><b>Latest Updates:-</b></p> <p><b>At the SAB Meeting in May 2020</b>, members were advised that work on preparing an A-Z guide to Responsible Investment will continue over the summer. As agreed in February the guide will not at this stage include any reference to fiduciary duty. The aim is to have a final draft for wider consultation ready to be considered by the Board by mid-August.</p> <p><b>On 11 May 2020</b>, SAB issued a statement on the Supreme Court boycotts judgement as follows:-          ‘The SAB welcomes the clarity brought by the judgement of the Supreme Court in the case of R (on the application of Palestine Solidarity Campaign Ltd and another) Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). In seeking to restrict the outcome as well as the considerations taken account of by an LGPS administering authority when developing its responsible investment policy, the government has been judged to have overstepped its powers. It is the Board’s view that Responsible Investment policy decisions belong at the local level reflecting: the need to pay pensions both now and in the future; local democratic accountability and the views of scheme members; and that outcomes of policy developments should not be subject to restrictions based on unrelated matters’.</p> <p><b>Previous Updates:-</b></p> <p><b>On 24 February 2020</b>, the SAB issued a statement thanking all those who responded to the request for comments on Part 1 of the Responsible Investment draft guidance. They advised that responses have been generally positive, however, some respondents have raised concerns around the issue of fiduciary duty in the context of the LGPS and, in particular, the role and responsibilities of elected members responsible for making investment decisions.</p> <p>The Board is also aware that the issue of fiduciary duty was discussed during the recent case in the Supreme Court involving the Palestine Solidarity Campaign and MHCLG that could shed some light on how the fiduciary duty test applies to investment decision makers in the LGPS. More recently, the government has introduced amendments to the Pension Schemes Bill which potentially could have a significant impact on the way in which investment strategy statements are prepared on issues like ESG and climate change.</p> <p>For these reasons, the view is taken that it would be imprudent at this stage to offer any definitive</p>	Updated

Organisation	Item	Details	Status
		<p>advice or guidance on how the fiduciary duty test applies to investment decision makers in the LGPS. The Board has therefore decided to take stock until it has had the opportunity to evaluate the judgement handed down by the Supreme Court and when more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill.</p> <p>Notwithstanding this decision, the Board is mindful that there are matters outside of fiduciary duty where advice and information would continue to be helpful. The Board has therefore decided to restructure the proposed guidance to explain and clarify the terminology associated with responsible investment and provide investment decision makers with a range of information, case studies and tools to help them meet the challenges associated with responsible investment. The revised document will be circulated in draft to scheme stakeholders for comment in the normal way.</p> <p>This change of direction will not preclude the Board from addressing the issue of fiduciary duty as a separate issue once the Supreme Court judgement in the foreign boycott case has been handed down and when there is more certainty about the government's proposals under the Pension Schemes Bill.</p> <p><b>On 3 January 2020</b>, APF issued their response to the consultation.</p> <p><b>Background:-</b></p> <p>At the meeting of the Scheme Advisory Board on the 6th November 2019, approval was given for the first part of guidance on responsible investment to be published for consultation. The aim of this first part of RI guidance is to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy statements. The Board wished to make it clear that there is no intention to prescribe the extent to which ESG policies must be adopted as this must clearly remain a matter for local consideration and agreement in accordance with MHCLG's statutory guidance.</p> <p>The Board also agreed that work should commence on drafting part two of the guidance, the aim of which is to provide investment decision makers with a toolkit they can use to further integrate ESG policies as part of their investment strategy. As part of the consultation on part one of the guidance, consultees were also invited to submit details of case studies that evidence the successful adoption of ESG policies, in particular, those focused on the risks associated with climate change. Consultees</p>	

Organisation	Item	Details	Status
		<p>were also invited to suggest other matters that should be included in the part two guidance. The aim will be to have prepared a working draft of the part two guidance in time for it to be considered by the Board when it next meets in February 2020.</p> <p>You can find a dedicated 'Responsible Investment' page on the SAB website as follows:-</p> <p><a href="https://www.lgpsboard.org/index.php/structure-reform/responsible-investment">https://www.lgpsboard.org/index.php/structure-reform/responsible-investment</a></p>	

Organisation	Item	Details	Status
SAB	Review of Academies	<p><b>Latest Update:-</b></p> <p><b>At the SAB Meeting in May 2020</b>, members were advised that the various recommendations from the project's working groups on administration are to be included in ongoing work on monthly data submission and Pension Administration Strategies when possible.</p> <p><b>Previous Updates:-</b></p> <p><b>At the SAB Meeting in Jan 2019</b>, the Board was advised that the work of the academies administration working group had been put on hold due to competing priorities.</p> <p><b>At the SAB Meeting in Oct 2018</b>, the Board agreed that the administration working groups work on agreeing a standard monthly data extract should continue to completion. Further work will also be undertaken on training and improving communication within the academy sector. The future programme of the funding working group is to be the subject of discussion with DfE and MHCLG.</p> <p><b>In September 2018</b>, GAD issued its report: Academies LGPS pension arrangements. It contained no recommendations, but suggest that DfE and MHCLG consider what changes to academy pension arrangements within the LGPS might be appropriate in order to meet policy objectives.</p> <p><b>In May 2017</b>, PWC's report was published and can be found as follows:-</p> <p><a href="http://lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_academies_20170525_v1_1.pdf">http://lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_academies_20170525_v1_1.pdf</a></p> <p>Ministers agreed that DFE, MHCLG, GAD and the Board should continue to work closely together to pursue solutions, engaging key stakeholders including pension funds, actuarial firms and academy trusts as appropriate. Two working groups were set up for Administration and Funding.</p> <p>The administration group were to focus on more consistency in pensions administration, more effective communication, improved training at local, regional and national level, and clarifying the duties and responsibilities of stakeholders.</p> <p>The funding working group were to explore proposals to standardise conversion methodologies, move to single future service rates within each LGPS fund and to better enable MATS to consolidate their</p>	Updated

Organisation	Item	Details	Status
		<p>schools in one LGPS fund.</p> <p><b>Background:-</b></p> <p>As part of its work plan for 2016/17, SAB intended to investigate the issues, and develop options to address those issues, with regard to the policy objective to convert all schools to academies and what this would mean for LGPS pension funds and their host authorities.</p> <p>Phase 1 - This work was awarded to PwC and they commenced work to identify the issues of the current academy/LGPS relationship with the intention of finding a possible general direction of travel required to address them (better arrangements within the current scheme, changes to the current scheme and changes outside of the scheme).</p> <p>Phase 2 - If a general direction of travel can be agreed a further period of more detailed work would be undertaken including working up detailed options for guidance, regulation and/or primary legislation together with full consideration of the potential benefits and obstacles of each. It should be noted that no matter what the outcome of this work no decisions regarding changes to the LGPS with regard to academies can be made by the Board who can only recommend such changes to the Secretary of State.</p> <p>You can find a dedicated 'Review of Academies' page on the SAB website as follows:-</p> <p><a href="http://lgpsboard.org/index.php/structure-reform/review-of-academies">http://lgpsboard.org/index.php/structure-reform/review-of-academies</a></p>	



Organisation	Item	Details	Status
SAB	Tier 3 Employers	<p><b>Latest Update:-</b></p> <p><b>At the SAB Meeting in May 2020</b>, members were advised that the working group set up to take this work forward has not been able to meet but discussions with MHCLG are being progressed.</p> <p><b>Previous Updates:-</b></p> <p><b>At the SAB Meeting in Jan 2019</b>, the Board was advised that the work of the third tier employers' project working group had been put on hold due to competing priorities.</p> <p><b>In Sept 2018</b>, a final version of the Aon report was published and can be found as follows:-</p> <p><a href="http://lgpsboard.org/images/PDF/Tier_3_employers_in_the_LGPS_FINAL.pdf">http://lgpsboard.org/images/PDF/Tier_3_employers_in_the_LGPS_FINAL.pdf</a></p> <p><b>At the SAB meeting in Jun 2018</b>, Aon presented members with a summary of the final draft report. The Board was anxious to point out that the report makes no attempt to make any recommendations, instead, it outlines a range of issues raised by stakeholders and how they envisage these concerns being resolved.</p> <p>The Board agreed that the report should be published and that a small working group of Board members will be established to review the concerns expressed by third tier employers in the report and the ways in which they could be resolved. The working group will be tasked to report back to the Board later in the year with a set of recommendations for further consideration. Once approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance.</p> <p><b>Background:-</b></p> <p>As part of its work plan for 2016/17, SAB wanted to identify the potential funding, legal and administrative issues and liabilities relating to admitted and scheduled bodies that do not benefit from local or national tax-payer backing (Tier 3 employers).</p> <p>The work was split into two concurrent phases:</p>	Updated

Organisation	Item	Details	Status
		<p>1) The Board was to work with LGPS administering authorities to gather data regarding the number, membership, liabilities and covenants of these employers.</p> <p>2) Separately the Board appointed Aon to assist it in further analysis in this area.</p> <p>You can find a dedicated 'Tier 3 Employers' page on the SAB website as follows:-</p> <p><a href="http://lgpsboard.org/index.php/structure-reform/tier-3-employers">http://lgpsboard.org/index.php/structure-reform/tier-3-employers</a></p>	
MHCLG	Simplification Project	<p><b>Previous Update:-</b></p> <p><b>At it's first meeting held in May 2019</b>, the terms of reference were agreed and the group considered a couple of administrative areas that may be improved / simplified. Should these considerations proceed further, a wider consultation will occur. These were:</p> <p>(a) application of assumed pensionable pay, and</p> <p>(b) employee and employer contributions during the 1st 30 days of an authorised absence)</p> <p><b>Background:-</b></p> <p>MHCLG have identified a need to make the Scheme regulations more adaptable, flexible and easy to administer, whilst maintaining a degree of consistency of approach across administering authorities. This project is called the 'Simplification project'. The Simplification project is supported by a working group made up of representatives from trade unions, actuarial services, MHCLG, SAB, LGA and where necessary scheme employers, payroll software providers, administering authorities and software providers.</p>	No Further Update

Organisation	Item	Details	Status
MHCLG	Consultation on LGPS Local Valuation Cycle and the Management of Employer Risk	<p><b>Risk Register Item – R62 (In respect of Exit Credits)</b></p> <p><b>Previous Updates:-</b></p> <p><b>On 26 Aug 2020</b>, MHCLG published a second partial response to this consultation covering greater flexibility on employer exit payments and the ability to review employer contributions between valuations. The LGPS (Amendment) (No.2) Regulations 2020 provided for the changes and came into effect from 23 September 2020. A working group has been established by MHCLG to prepare statutory guidance, to accompany the regulations, to assist with the necessary revisions required to Funding Strategy Statements</p> <p>A further response will be made by MHCLG in relation to the other proposals in the consultation (changes to the local fund valuation cycle, interim valuations and the status of further education, sixth form college and higher education corporations in England and Wales) in due course.</p> <p><b>On 27 Feb 2020</b>, MHCLG published a partial response to this consultation covering the proposals on exit credits only. MHCLG will submit a further response to the other proposals covered by this consultation in due course.</p> <p>The response confirms that the majority of respondents supported the proposal to allow administering authorities to take account of an employer's exposure to risk when calculating an exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 giving effect to these proposals were laid in Parliament and came into force on 20 March 2020.</p> <p><b>Background:-</b></p> <p>In May 2019, MHCLG launched a 12 week consultation on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covered the following areas:</p> <ol style="list-style-type: none"> <li>1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle</li> <li>2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles</li> <li>3. Proposals for flexibility on exit payments (Update - Resolved following second partial response to consultation in Aug 2020 and Amendment Regulations in Sept 2020).</li> </ol>	No Further Update

Organisation	Item	Details	Status
		<p>4. Proposals for further policy changes to exit credits (Update - Resolved following partial response to consultation in Feb 2020 and Amendment Regulations in Mar 2020).</p> <p>5. Proposals for policy changes to employers required to offer LGPS membership</p> <p>MHCLG received around 280 responses, one of which was from APF.</p>	
<b>MHCLG</b>	<b>Consultation on Fair Deal</b>	<p><b>On 10 December 2019</b>, a representative from MHCLG provided the following update to the LGPS National Technical Group “The analysis of consultation response has been completed. Officials have started to draft the government response but the content of that is still conditional on some further ministerial decisions that will need to be taken once the new government is formed”.</p> <p><b>Background:-</b></p> <p>In Jan 2019, MHCLG launched a policy consultation and draft regulations on ‘Fair Deal – strengthening pension protection’ in the LGPS. The consultation contained proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government’s October 2013 Fair Deal guidance that applies in relation to transfers from central government.</p> <p>MHCLG received around 79 responses, one of which was from APF.</p>	<b>No Further Update</b>
<b>HMT</b>	<b>Written Ministerial Statement on Survivors Benefits</b>	<p><b>Previous Update:-</b></p> <p><b>On 20 Jul 2020</b>, the Chief Secretary to the Treasury made a written statement on public service pensions, survivor benefits for opposite-sex widowers and surviving male civil partners. The statement was in relation to a Teachers Pension Scheme Employment Tribunal case where male survivors of female scheme members remain entitled to a lower survivor benefit than a comparable same-sex survivor and confirmed that government believes that this difference in treatment will also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member is in similar circumstances. We await guidance from MHCLG on what action administering authorities in England and Wales should take.</p>	<b>No Further Update</b>

Organisation	Item	Details	Status
HMT	Indexation and equalisation of GMP in public service pension schemes	<p><b>Latest Update:-</b></p> <p>On 7 October 2020, the government published a written ministerial statement and consultation on how it proposes to ensure it continues to meet these past commitments to public service employees regarding the full indexation of public service pensions, including for any related GMP element for members of public service pension schemes. The consultation, which closes on 30 December 2020, considers the policy options available to the government and proposes to extend the interim solution until at least April 2024 or to make it a permanent solution. A link to the consultation can be found as follows:-</p> <p><a href="https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation">https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation</a></p> <p><b>Previous Update:-</b></p> <p>In Feb 2020, HMRC published a newsletter on GMP equalisation. HMT are working with MHCLG to assess if GMP equalisation must apply to LGPS members' benefits and will notify administrators of the outcome in due course.</p> <p><b>Background:-</b></p> <p>On 6 April 2016, the government introduced the new State Pension (nSP). The reformed system simplified pension provision but removed the mechanism that enabled those public servants in 'contracted-out' employment between 1978 – 1997 to have their Guaranteed Minimum Pension (GMP) fully price protected.</p> <p>On 1 March 2016, the government announced that public service pensioners reaching SPa after 5 April 2016 and before 6 December 2018, would have the GMPs earned in public service fully indexed by the public service pension scheme.</p> <p>The government then launched a consultation to consider whether public service pension schemes should pay full indexation on GMP earned while a member of a public service pension scheme, for someone who reaches SPa after 5 December 2018.</p>	Updated

Organisation	Item	Details	Status
		In Jan 2018, HMT published its response to the consultation directing that the “interim solution” between 6 April 2016 and 5 December 2018 be extended for a further two years and four months. This will cover those members of public service schemes with a GMP who reach state Pension Age on or after 6 December 2018 and before 6 April 2021. During this period, the government will investigate the possibility of an alternative long-term methodology, known as “conversion”.	
TPR	Codes of Practice	<p><b>Latest Update:-</b></p> <p><b>On 1 September 2020</b>, TPR confirmed that it intends to launch the formal consultation on a single Code of Practice in late 2020 or early 2021.</p> <p><b>Previous Update:-</b></p> <p>The Pensions Regulator announced changes to existing codes of practice. The content of the 15 current codes of practice will be combined to form a single shorter code. The changes will reflect the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. Codes most affected by these regulations will be addressed first, and this includes Code of Practice 14 (public sector schemes). Schemes will need to demonstrate that they have an effective governance system within 12 months of the date the updated codes are published.</p>	Updated

Organisation	Item	Details	Status
Other	LGPS National Knowledge Assessment (NKA)	<p><b>Latest Update:-</b></p> <p>In August 2020, the National Knowledge Assessment report was published with around 225 members across 20 administering authorities having participated in the survey. You can download the results from Hymans website as follows:-</p> <p><a href="https://www.hymans.co.uk/insights/research-and-publications/publication/lgps-national-knowledge-assessment-report/">https://www.hymans.co.uk/insights/research-and-publications/publication/lgps-national-knowledge-assessment-report/</a></p> <p>The first set of results shows the average participant score across all eight sections as set out below:-</p> <ul style="list-style-type: none"> <li>• financial markets and product knowledge (83%)</li> <li>• committee role and pensions legislation (71%)</li> <li>• pensions governance (69%)</li> <li>• investment performance and risk management (68%)</li> <li>• pensions accounting and audit standards (68%)</li> <li>• procurement and relationship management (67%)</li> <li>• pensions administration (59%)</li> <li>• actuarial methods, standards and practices (53%)</li> </ul> <p>The report also includes a helpful list of training topics identified by participants, top of the list is training on the McCloud remedy.</p> <p><b>Previous Update:-</b></p> <p>In Feb 2020, Hymans Robertson launched their NKA which will look at the knowledge levels of key decision makers (Pension Committee (PC) and Pension Board (PB) members). By participating in the assessment, each administering authority will receive:</p> <ul style="list-style-type: none"> <li>• their own results report</li> <li>• Hymans Robertson analysis and suggested next steps</li> <li>• their benchmarked position against other LGPS administering authorities</li> <li>• a recommended training plan tailored for their PC and PB.</li> </ul>	Updated

Organisation	Item	Details	Status
		Following the assessment, Hymans Robertson will publish a National Report. This will contain commentary and analysis on the current LGPS PC and PB landscape. Hymans Robertson will send an invitation to all administering authorities in March 2020.	
Government	Pension Schemes Bill	<p><b>Latest Update:-</b></p> <p><b>On 7 Oct 2020</b>, the Pension Schemes Bill, which started in the House of Lords and was introduced into the House of Commons on 16 July 2020, had its Second Reading and is due have two days in Public Bill Committee on 3 and 5 November.</p> <p><b>Previous Updates:-</b></p> <p><b>On 19 Dec 2019</b>, the Queen announced, in her speech, that the Government will reintroduce the Pension Schemes Bill which has been introduced in the House of Lords with the second reading on 28 January 2020. The Bill will now move to committee stage.</p> <p><b>On 14 Oct 2019</b>, the Queen confirmed, in her speech, that a new Pension Schemes Bill will be introduced and will:-</p> <ul style="list-style-type: none"> <li>• strengthen TPR's powers</li> <li>• provide a framework to support pensions dashboards and</li> <li>• introduce regulations covering the right to a pension transfer.</li> </ul>	Updated



Organisation	Item	Details	Status
DWP	Pensions Dashboard	<p><b>Latest Update:-</b></p> <p><b>In April 2020</b>, MaPs published two papers:-</p> <ul style="list-style-type: none"> <li>• Pensions Dashboards Data Definitions – Working Paper (which lists the set of data items that could be included in the dashboards data standards.</li> <li>• Pensions Dashboards Data Scope: Working Paper (which looks at options for achieving early breadth of coverage and confirms that initial dashboards will only include information that is already available on annual statements to enable the maximum number of pension schemes to onboard at an early stage.</li> </ul> <p>MaPS requested formal feedback on these papers throughout July and August and are currently reviewing the responses received and will give a summary in the autumn.</p> <p><b>Background:-</b></p> <p>The Pensions Dashboard is an online service which would allow people to see information from multiple pensions all in one place. Following a feasibility study, conducted by DWP, to explore the options for delivering the Pensions Dashboard, the Government launch a consultation in Dec 2018 setting out the findings of the study and their recommendations for dashboards. In April 2019, the government published its response to the consultation outlining the key details of their plan including:-</p> <ul style="list-style-type: none"> <li>• Legislation to compel pension providers to make consumers' data available on the dashboard</li> <li>• Staged onboarding of schemes with the majority of schemes participating within 3 to 4 years</li> <li>• The inclusion of state pension data</li> <li>• A commitment to multiple dashboards, with a non-commercial dashboard being overseen by the Money and Pensions Service (MAPS).</li> </ul> <p>MAPS will lead the delivery of the initial phase of the pensions dashboards and will bring together a delivery group made up of stakeholders from across the industry, consumer groups, regulators and government.</p> <p>The DWP advises the pensions industry to get ready, in the next three to four years, to submit data. Compulsion will require primary legislation and the Pensions Minister, Guy Opperman, has indicated</p>	Updated

Organisation	Item	Details	Status
		his Department's intention to include a Pensions Bill in the next Queen's Speech for this.	
<b>Government</b>	<b>Divorce, Dissolution and Separation Act 2020</b>	<b>On 25 June 2020</b> , the Divorce, Dissolution and Separation Act 2020 received royal assent and will, in the main, come into force on a date to be appointed by Government. The Act will revise the legal process in England and Wales for married couples to obtain divorces and for civil partners to dissolve their civil partnership. It will also update terminology: terms such as “decree nisi”, “decree absolute” and “petitioner” will be replaced with “conditional order”, “final order” and “applicant”.	<b>New Item</b>
<b>MHCLG / GAD</b>	<b>Revised GAD Guidance</b>	<p><b>On 21 September 2020</b>, the LGA emailed administering authorities and software suppliers alerting them to revised versions of the following GAD guidance, alongside a covering letter from MHCLG:-</p> <ul style="list-style-type: none"> <li>• Application of a pension debit for divorced members – Transfer date from 1 April 2014</li> <li>• Application of a pension debit for divorced members – Transfer date before 1 April 2014</li> <li>• Pension sharing following divorce</li> <li>• Individual incoming &amp; outgoing transfers</li> <li>• Trivial commutation</li> </ul> <p>The covering letter from MHCLG summarises the main changes and confirms that the revised guidance and spreadsheet come into force on 1 November 2020 and also sets out the transitional arrangements. We are expecting an update to our Pensions Administration System, to reflect changes to calculation methodology in certain areas, in November and as such may need to stockpile some cases until these changes are delivered.</p>	<b>New Item</b>

Organisation	Item	Details	Status
Government	Consultation on Changes in RPI Methodology	<p><b>Latest Update:-</b>  <b>On 11 March 2020</b>, the Government and the UK Statistics Authority (UKSA) launched a consultation on UKSA's proposal to address the shortcomings of the Retail Prices Index (RPI) measure of inflation. The consultation will cover, among other things, the issue of timing, including whether the UKSA's proposal might be implemented at a date other than 2030, and if so, when between 2025 and 2030 and issues on technical matters concerning the implementation of its proposal. The consultation was initially set to be open for a period of six weeks, however, this period was extended by four months because of the coronavirus pandemic and therefore didn't close until 21 August 2020. The government and UKSA is expected to publish their response to the consultation alongside the Spending Review on 25 November.</p> <p><b>Previous Updates:-</b>  <b>On 13 January 2020</b>, in a letter to the House of Lords Economic Affairs Committee, the Chancellor announced that the consultation will be launched at the Budget on 11 March 2020. GAD has published a technical bulletin on the proposed changes and their potential impact.</p> <p><b>Background:-</b>  Chancellor of the Exchequer Sajid Javid announced that the Government intends to consult on whether to align the RPI with the housing cost-based version of the CPI, known as CPIH. The consultation on the proposed changes will open in January 2020, and will ask whether the change should be made before 2030. A change in RPI would affect the revaluation (while the member is active, deferred or the pension is in payment) of extra pension bought under an ARC contract that started between 1 April 2008 and 31 March 2012.</p>	Updated

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# Avon Pension Fund

## Local Government Pension Scheme

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08 October 2020

[LGPensions@communities.gov.uk](mailto:LGPensions@communities.gov.uk)

### **Re: Consultation on Amendments to the Statutory Underpin**

With reference to the recent consultation regarding the proposed amendments to the statutory underpin, published on 16 July 2020, this is the response from Bath and North East Somerset Council as the administering authority for the Avon Pension Fund which represents 38,064 active members from 443 actively contributing employer bodies.

We would like to start by bringing to your attention the following recommendations we have in relation to the proposals that we feel must be strongly considered, and where necessary addressed, before any such changes are implemented:-

**Recommendation 1:- Consider removing the requirement to calculate the underpin at a member's 2008 Scheme NPA where they continue in active membership after that date.**

**Recommendation 2:- We must have the final amendment regulations to implement the remedy published at the earliest possible opportunity and way ahead of their implementation date. We understand that this is possible as the LGPS does not require changes to primary legislation, as the other PSPS do. By publishing these early this would give both administrators and software providers the best opportunity to make the necessary changes in preparation for their implementation in April 2022.**

**Recommendation 3:- There is nothing in the proposals setting out the likely timescales in which the retrospective review of benefits for those protected members who have already left the scheme must be completed by administrators. It is essential that administrators are given sufficient time to properly address such cases.**

In addition to our recommendations above, our responses to the consultation questions are as follows:-

**Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members?**

Yes, we agree that by extending the underpin to younger scheme members and removing the requirement to be entitled to the immediate payment of benefits, this would remove the discrimination found in the McCloud and Sargeant cases.

**Question 2 - Do you agree that the underpin period should end in March 2022?**

Yes.

**Question 3 - Do you agree that the revised regulations should apply retrospectively to 1st April 2014?**

Yes.

**Question 4 - Do the draft regulations implement the revised underpin which we describe in this paper?**

We believe so.

**Question 5 - Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?**

Whilst they do provide a framework of protection that would be of the benefit to members, the complexity of the proposed protections will be confusing and difficult to understand for members and will be extremely difficult to make work effectively for employers and administrators.

**Question 6 – Do you have other comments on technical matters related to the draft regulations?**

- Amendments suggested to Regulation 4 of the 2014 Regulations includes the addition of (1D) under (1)(c) which advises:-

“(1D) Where this paragraph applies, an active or deferred member has a twelve month period commencing from [XXXXXXXX] to elect to aggregate the previous Scheme membership that would give the member relevant Scheme membership”

We feel that this should also provide discretion for the administering authorities to allow for elections made after the 12 month period to be considered where there are exceptional circumstances.

- The regulations do not address changes for members who opted out of the Scheme in an employment (other than a concurrent employment) on or after 11 April 2015 with an entitlement to a deferred benefit. These members do not have the right to aggregate benefits on re-joining because of the amendment made to regulation 22(8) by SI 2015/755. These members do not appear to be getting an opportunity to reconsider their decision to opt out as those members who have chosen not to aggregate benefits will do. This could lead to further grounds for appeal if not addressed.

**Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?**

Yes.

**Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?**

The qualifying criteria does leave the category of members who joined the scheme on or after 1 April 2012 and before 1 April 2014, and so have accrued membership under the final salary scheme, unprotected by the revised underpin which could lead to future claims.

**Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?**

Yes, we would insist that this must be the case.

**Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?**

We agree with the proposals, however, the regulations do not appear to allow any flexibility on the 12 month period, which the regulations seem to suggest starts from the date they come into force. We feel that the regulations should also allow discretion where a member makes an election after 12 months and there are exceptional circumstances that should be taken into consideration.

**Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have ‘significant adverse effects’ in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?**

We do not feel that these proposals would have an adverse effect on members as they continue to have a choice on whether or not to aggregate their benefits. What then might subsequently happen in the future to the member, their pay or the benefits they or their dependants are eventually awarded, which causes significant adverse effects on their benefits, is something the member must consider when making that choice, as they have had to do up to now.

**Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?**

Paragraph 58 – We agree that the underpin should apply to a qualifying member who dies in active service.

Paragraph 59 – Again, we agree that survivors pensions should include a proportion of any underpin enhancement awarded to a qualifying member.

**Question 13 – Do you agree with the two-stage underpin process proposed?**

Whilst we feel that this will be extremely complex to administer for many decades to come and will also cause significant confusion to members, we understand that this is necessary to prevent any future claims which could then lead to further rectification exercises. One concern we do have with the two-stage process is that we could be promising the member a ‘provisional underpin amount’ which may then be reduced or removed completely when the second stage of the calculation is performed decades down the line.

**Question 14 – Do you have any comments regarding the proposed approaches outlined above?**

Paragraph 66 - To include an estimate of how the underpin would apply to active members, year on year, carries an amount of risk is over complex and will in some cases be misleading, which could lead to complaints in the future.

Paragraph 67 – We feel that by imposing that the underpin calculation must be performed at a member’s 2008 Scheme NPA, where they continue in active membership, this could be seen as further age discrimination for older members who wish to continue in employment passed their NPA and as such restricting their pensionable pay by any increases they may gain after their NPA. We therefore feel that this rule should be removed completely as per our recommendation above (Recommendation 1).

Paragraph 71 - To include an estimate of the ‘provisional underpin amount’ on an annual benefit statement for a deferred member is again over complex and will in some cases be misleading, which could lead to complaints in the future.

**Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?**

The proposals have failed to consider members who opted out of the Scheme in an employment (other than a concurrent employment) on or after 11 April 2015 with an entitlement to a deferred benefit. These members do not have the right to aggregate benefits on re-joining because of the amendment made to regulation 22(8) by SI 2015/755. These members do not appear to be getting an opportunity to reconsider their decision to opt out as those members who have chosen not to aggregate benefits will do and so will be at a disadvantage. This could lead to further grounds for appeal if not addressed.

**Question 16 – Do you agree that annual benefit statements should include information about a qualifying member's underpin protection?**

No, we feel that annual benefit statements are already complicated enough, both to produce and also for members to understand. To add even more confusion by providing a provisional benefit that may or may not become payable would be a mistake. As any underpin enhancement is not likely to be of a singularly sufficient amount that will contribute to any decision the member is making on the basis of that statement, then why include it. Also, this is surely in direct contrast with the Governments consultation of November 2019 to provide simpler annual benefit statements for workplace pensions.

**Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?**

No, other than we do not feel that the underpin should be presented on annual benefit statements.

**Question 18 – Do you have any comments on the potential issue identified in paragraph 110?**

As the additions are likely to be extremely negligible in most cases we feel that a member is not likely to exceed the annual allowance in that PIP based on the underpin enhancement alone.

**Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the 'McCloud' and 'Sargeant' cases?**

We feel that by extending the underpin, so that those members who were in service on 31 March 2012 but not within 10 years of their NPA will qualify, and further removing the requirement that a member must leave active service with the immediate entitlement to a pension for any protection to apply, adequately addresses the discrimination found in the McCloud and Sargeant cases. All further proposals contained in this consultation go much further than the requirement on the scheme to address this discrimination, however, we understand that they are necessary to remove the risk of any future claims being brought against the scheme.

**Question 20 – Do you agree with our equalities impact assessment?**

Yes.

**Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?**

No.



**Question 22 – Are there other comments or observations on equalities impacts you would wish to make?**

No.

**Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?**

Clear, consistent and timely communications will be essential to help members and employers understand the implications of the proposals outlined in this paper. To ensure there is a consistent approach, we feel that communications for all administering authorities should be developed centrally so that a member is getting the same consistent information regardless of geographical location.

What I will say is that, to date, we have not had one query from a member in relation to this and that is a common theme in other administering authorities too and it is important not to over communicate to members giving a promise of improved benefits when most of them will see little or no improvement from the underpin protections.

**Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?**

The implementation of the proposed changes going forward, as well as the retrospective application, will lead to significant administrative complexity. If the proposals outlined in the consultation are taken forward as is, this will cause decades of additional data collection, member confusion and over complex calculations requiring good knowledge of the scheme both pre and post 2014, which, as the years go by, will become less common place amongst administrators.

The data collection exercise, which we will need to carry out with employers to gather any missing hour change and service break data going back to 1 April 2014, will place a massive strain on our internal resources as well as on the resources of the employers.

This will cost administering authorities so much time and money, which will not only have a negative impact on the service they are able to provide to all members of the scheme, not just those who are protected, but also will result in significant costs. Most administering authorities will need to find a large amount of additional budget to carry out this exercise as they will either need to recruit additional resource to deal with cases or pay third-party consultants to carry this out on their behalf. There is already a lack of candidates with the necessary LGPS knowledge and skills available nationwide to recruit into such posts.

Significant changes will be required to pensions administration systems which, depending on the timing and degree of success of these software changes, could make a big difference to the level of resource required for this exercise, and will most certainly add to the overall costs involved.

Along the way, there will need to be a whole programme of communications developed for members and employers, as well as the need to carry out a full review of the member and employer websites, scheme guides, letters and internal processes in order to ensure that they are updated with any amendments in preparation for the implementation date.

As administrators we urge you to ensure that significant central support is made available to administrators to assist them in any way possible, for example, providing central communications, providing them with clear guidance on what action is required etc.

It is difficult to predict what impact these proposals will have on the future of local administration of the LGPS, or what damage they will this cause to the morale of administrators, who are already under

significant pressure. Our fear is that they will either head out of the door or stay and suffer possible long term negative effects on their mental health.

**Question 25 – What principles should be adopted in determining how to prioritise cases?**

We would suggest that pensions in payment for both members and survivors should be prioritised first, followed by transfers out and trivial commutations and finally followed by deferred members. We would ask that adequate time is given to administrators in order to apply the remedy retrospectively and we would further hope that systems will at least be updated to automatically apply the underpin to active members who leave following the regulations coming into force, however, this would rely on early publishing of LGPS regulations way ahead of their implementation date.

**Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators?**

Yes, firstly, we would refer you to our recommendations outlined at the beginning of our response which we feel would slightly simplify the proposals, whilst still addressing the discrimination in the McCloud and Sargeant cases.

It would also be extremely useful if there could be a set of assumptions/criteria developed and issued to administrators to assist them when identifying whether the past cases they are required to retrospectively revisit will actually trigger an underpin enhancement. We see this as some kind of data checker which can be run on an extract of our data, containing those members in scope of the protections, and highlight cases that have the potential to trigger an underpin enhancement and therefore recommend them for review. Currently, we have identified around 12,000 members in scope of the protections who will require retrospective review and there must be some way that these can be narrowed down significantly to only include those members for whom the underpin is likely to bite.

**Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?**

We also feel that the following administrative guidance will be required to provide a consistent approach across the board:-

- As mentioned in my answer to the last question, it would be extremely useful if there could be a set of assumptions/criteria developed and issued to administrators to assist them when identifying whether the past cases they are required to retrospectively revisit will actually trigger an underpin enhancement.
- How to deal with cases where an employer is not able or willing to provide missing hour change and service break data for a member.
- What to do about additional payments that are due to survivors of scheme members who have subsequently died or, in the case of dependants the payment of their pension has ceased, and no contact can be made.
- Should there be a minimum amount of annual underpin enhancement determined that triggers the requirement for schemes to revise pensions, survivors pensions, transfers out and trivial commutations where payment has already commenced, for example, where a member is entitled to an underpin addition of £5 per annum, less than 50p per month? Guidance on such an area, or confirmation that the expectation is that all cases will need to be corrected however trivial the amount, would be useful to ensure a consistent approach across the board.

**Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?**

- How to deal with cases where an employer is not able or willing to provide missing hour change and service break data for a member.
- What to do about additional payments that are due to survivors of scheme members who have subsequently died or, in the case of dependants the payment of their pension has ceased, and no contact can be made.
- There should be a minimum amount of annual underpin enhancement determined that triggers the requirement for schemes to revise pensions, survivors pensions, transfers out and trivial commutations where payment has already commenced. Guidance on such an area, or confirmation that the expectation is that all cases will need to be corrected however trivial the amount, would be useful to ensure a consistent approach across the board.

**Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?**

As already mentioned, the potential cost of the remedy itself and mainly the costs of carrying out this exercise are likely to be disproportionate in representing such little gain to those members it is being put in place to protect. Administrators will require additional resources or will need to look to outsource this exercise to an external company. The costs associated with amendments required to software systems and communications to all stakeholders will be significant. It is inevitable that these costs eventually lead to increased costs to the local taxpayer. As such, steps should be taken to ensure that the proposals to remove age discrimination from the LGPS are adequate but not excessive.

**Further Comments:-**

In June 2018, MHCLG approached the Scheme Advisory Board (SAB), having identified a need to make the Scheme Regulations more adaptable, flexible and easy to administer and in response to this the SAB set up a 'Simplification Project'. The proposals contained in this consultation most certainly will not make the scheme easy to administer but instead would introduce changes to the regulations that will cause complexities for years to come, very much going against simplification.

We hope our response is useful in taking the proposals forward and that full consideration is given to all points and recommendations raised to ensure that the scheme can deliver the objectives required in a manner that is fair on both members, employers, administrators and the local tax payer.

We look forward to being updated in due course.

Kind Regards,

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>11 December 2020</b>
TITLE:	<b>PENSION FUND ADMINISTRATION</b> <b>(1) Overview &amp; Summary Performance Report</b> <b>(2) Update to Risk Register</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p>Appendix 1 – Membership data</p> <p>Appendix 2 – Performance against SLA &amp; Workload</p> <p>Appendix 2a – Performance against Statutory Legal Deadlines</p> <p>Appendix 3 – Employer Performance</p> <p>Appendix 4 – TPR Data Improvement Plan</p> <p>Appendix 5 – Late Payers</p> <p>Appendix 6 – Risk Register</p> <p>Appendix 6a – Risk Dashboard</p> <p>Appendix 7 – IDRP Current Cases</p>	

## **1 THE ISSUE**

- 1.1 The purpose of this report is to inform the Pensions Committee of the performance for Fund Administration for the period up to 30<sup>th</sup> September 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23<sup>rd</sup> March 2020.
- 1.2 To update the current position of the Avon Pension Fund Risk Register and its top risks.

## **2 RECOMMENDATION**

The Committee is asked to Note:-

- 2.1 Fund and Employer performance for the three months to 30<sup>th</sup> September 2020.
- 2.2 The updated Risk Register and actions taken

## **3 COVID-19 AND FUND BUSINESS CONTINUITY**

- 3.1 With the UK lockdown in place from 23<sup>rd</sup> March, the initial response from the Fund was focussed on communications, ensuring all staff officers had capability to undertake business operations remotely from home.

- 3.2 Secure communications have been established for scheme members including the implementation of digital online tracing and member identification checking capability, mitigating the requirement for certificates to be sent by post.
- 3.3 Direct engagement with all key employers remains in place to review and monitor business as usual capability. All other employers have been surveyed to establish BAU capabilities with no significant issues being reported to date.

## 4 GOVERNANCE

- 4.1 Advice and guidance for scheme administrators has been received from the Pensions Regulator as the COVID-19 pandemic continues to evolve. Whilst the prioritisation of critical administration remains; focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases, pension funds have been reminded of their responsibility to maintain other administrative processes.

## 5 MEMBERSHIP TRENDS

- 5.1 **Appendix 1** provides a detailed breakdown of employer/member ratio; split between whole time and multiple employment membership as well as a snapshot of individual employer and member make up. The number of new smaller employers to the Fund can be attributed mainly to the continued fragmentation of the employer base (newly created Academies/MAT's and Transferee Admitted Bodies) and this has a direct impact on the administration workload with increased movement between employers, especially within the education sector. A further 12 Academy conversions are in the pipeline as at 3<sup>rd</sup> November 2020.

## 6 APF PERFORMANCE

- 6.1 As per TPR guidance the Fund has focussed on critical member processes including the processing of retirement and death benefits. **Appendix 2 (Annex 1 & 2)** and **Appendix 2a** provide details of APF performance up to the end of the last quarter for all KPI's measured against both SLA and statutory legal deadlines.
- 6.2 KPI's are monitored and reported to the Pensions Manager for review on a bi-weekly basis. **Appendix 2 (Annex 5)** reflects the situation 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.

## 7 MEMBER COMMUNICATIONS

- 7.1 Pension Savings Statements
- 7.2 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.
- 7.3 The Fund is required to issue a statement if pensions savings in the APF exceed the standard annual allowance. The annual allowance is the maximum amount of pension saving that an individual can make each tax year that benefits from tax relief. The standard annual allowance is £40,000 for the 2019/2020 tax year and the statement includes information that members must consider in determining whether a tax charge is payable.

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

## 8 EMPLOYER PERFORMANCE

8.1 **Appendix 3** highlights employer SLA performance for notification of member retirements for the previous year and separately by case number over the three months to 30<sup>th</sup> September 2020.

8.2 Further reports are currently in development to analyse employer monthly data returns and these will be introduced in due course.

## 9 TPR DATA IMPROVEMENT PLAN

9.1 APF have measured an overall data score of 94.54% for the quarter ending September 2020.

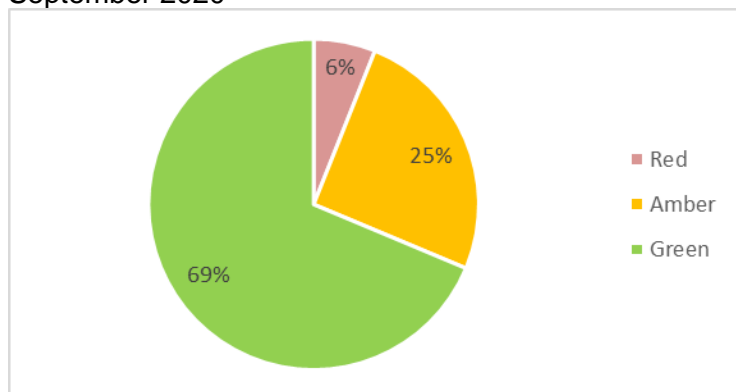
9.2 Although the overall data score has remained constant, the split of queries for active members is now across an increased number of smaller employers who may only need one or two data queries to move them in to the amber or red category. These employers continue to be targeted for improvement.

9.3 A summary of the RAG rating by employer is shown below. The RAG rating reflects employers with % outstanding data queries against profiled scheme membership: (over 10% = Red, between 0.1% & 10% = Amber and 0% = Green).

9.4

No of Employers June 2020	No of Employers Sept 2020	Queries	RAG rating
24	25	10% >	Red
99	109	0.1 to 10%	Amber
306	308	0%	Green

September 2020



9.5 Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Dec 19	Queries Mar 20	Queries Jun 20	Queries Sept 20	Member ship	RAG	
BANES	50	48	41	74	2710	2.73%	Amber
Bristol City	259	271	224	196	9007	2.17%	Amber
North Somerset	14	8	10	17	1897	0.87%	Amber
South Gloucestershire	92	142	134	166	5859	2.83%	Amber

## 10 RESOURCE UPDATE

10.1 A staff recruitment project is currently in progress to appoint 11.2 FTE vacant posts across member and employer services teams.

10.2 The project began in September and recruitment will be staged over 3 phases continuing into 2021. Interviews for phase one are currently being held and phase two is expected to commence before the end of December. A temporary training role has been created internally to manage training for all newly recruited officers whilst staff continue to work remotely from home.

## 11 LATE PAYERS

11.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

11.2 The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.

11.3 **Appendix 5** reports late payers in the period to 30<sup>th</sup> September 2020. There were a small number of late payments in the reporting period, none of which were of material significance and therefore recorded internally but not reported to TPR. The Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

## 12 RISK REGISTER

12.1 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. Risks identified cannot be eliminated but can be treated via monitoring.

12.2 The risks identified fall into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
- (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance
- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and



annual review of investment strategy, robust legal contracts to protect against fraud & negligence

- (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

12.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews

The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in November 2020.

12.4 The management of the risk register has been updated with the introduction of a more robust process for identifying and managing risks. The new look register including likelihood, impact and mitigating actions and overview dashboard are attached at **Appendix 6 and 6a**.

12.5 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.

12.6 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.

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

- a) 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.

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

- a) 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.
- b) Deterioration in financial stability of employers - the covenant work plan has been agreed & is being implemented. The Fund is experiencing an increase in contribution queries from outsourcing employers about pension costs on their contracts. The Fund is considering the changes to the USS debt arrangements

with employers which would mean LGPS ranks lower in event of insolvency, which will affect covenant of HE's. Policy being developed for Deferred Debt Arrangements (regulations passed but implementation guidance is not due until early 2021).

- c) The sustainability of remote working continues to be monitored. TPR/SAB guidance continues to be reviewed as received & procedures reviewed as necessary. 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 app April 202
- d) 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.
- e) Paper on Brexit risks taken to Nov 20 Investment Panel. Risks point to sharp GBP sell-off if by end of year no deal materialises which would lead to FX hedge detracting from returns. Cashflow monitoring being developed to ensure sufficient ongoing cash collateral to support hedging strategies. Kept under review through routine monitoring and specialist advice. Inflation linked assets/Gilts/Corporate Bonds held as part of Risk Management (RM) framework. Any short-term impact on yields and/or inflation not expected to have material impact as RM framework is long-term strategy with long duration assets and corporate bonds held to maturity for cash flow matching purposes. The Fund has zero allocation to UK equities. UK property transition to Brunel is due in 1Q2021 - UK property portfolio positioned defensively i.e. underweight retail and office space; overweight industrials.

### **13 IDR P**

- 13.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved. This is done under an IDR P. The table at Appendix 7 shows the cases going through at the present time.

### **14 RISK MANAGEMENT**

- 14.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

### **15 EQUALITIES STATEMENT**

- 15.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified

### **16 CLIMATE CHANGE**

- 16.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from

climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## **17 OTHER OPTIONS CONSIDERED**

17.1 There are no issues to consider not mentioned in this report.

## **18 CONSULTATION**

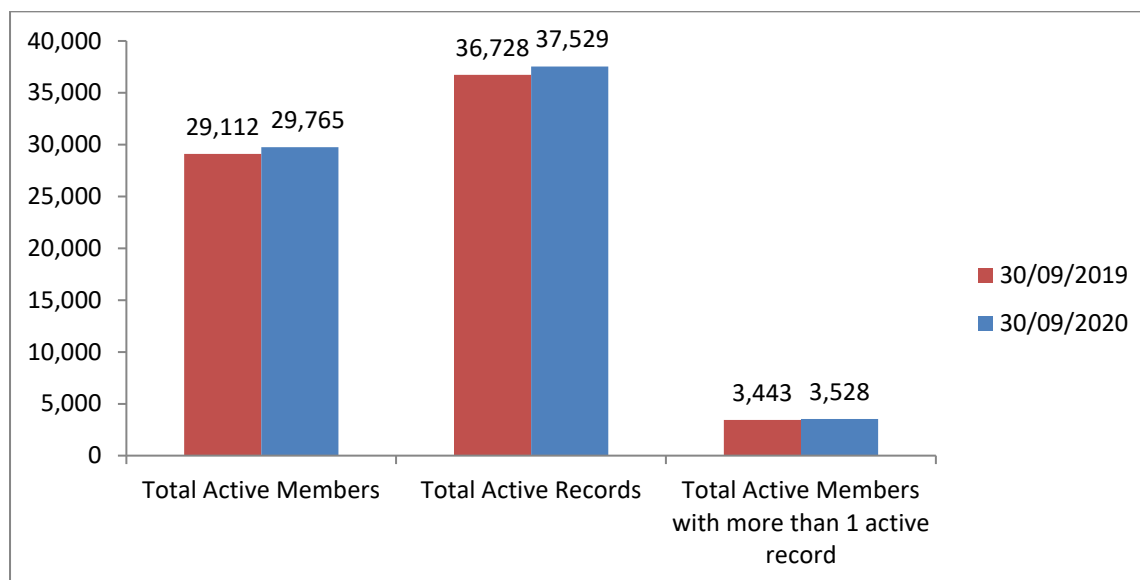
18.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	<i>Geoff Cleak, Pensions Manager; Tel 01225 395277</i>
<b>Background papers</b>	<i>Various statistical documents.</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

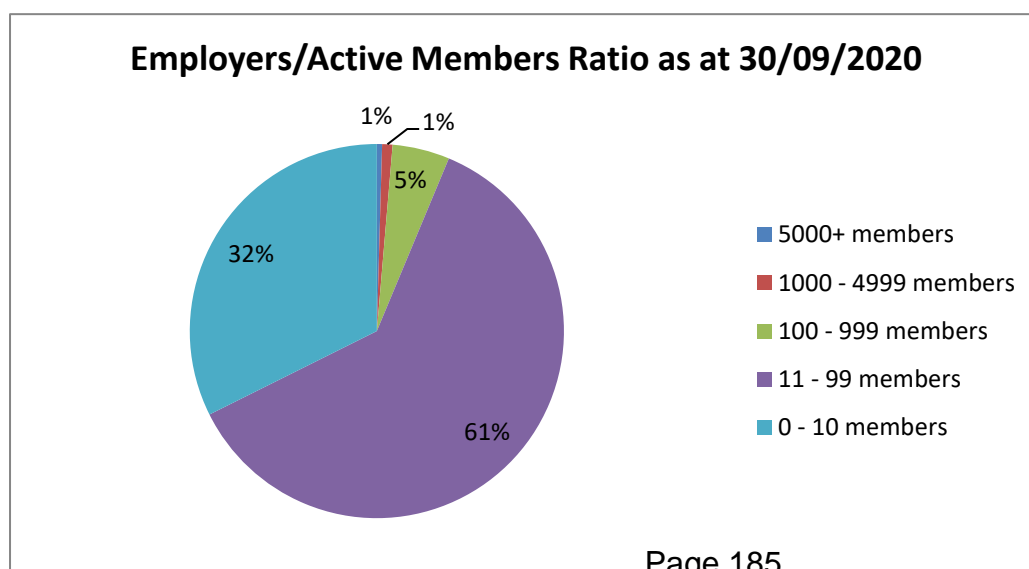
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**Annex 1**

Active membership	30/09/2019	30/09/2020	+/-
Total Active Members	29,112	29,765	+653
Total Active Records	36,728	37,529	+801
Total Active Members with more than 1 active record	3,443	3,528	+85

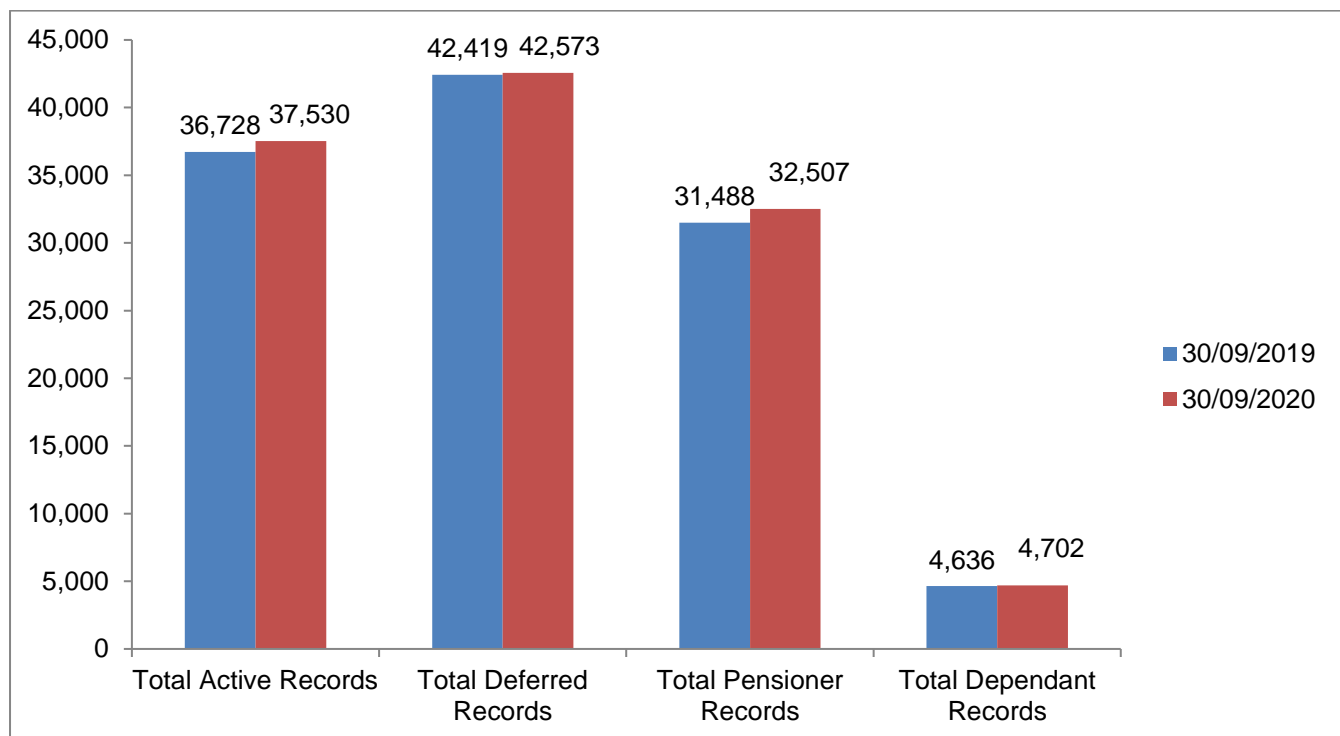

**Annex 2**

Employers/Active Members Ratio	30/09/2019	30/09/2020	+/-
Number of employers with 5000+ members	2	2	+0
Number of employers with between 1000 and 4999 members	4	4	+0
Number of employers with between 100 and 999 members	21	22	+1
Number of employers with between 11 and 99 members	260	273	+13
Number of employers with between 0 and 10 members	149	144	-5
Total	436	445	+9



### Annex 3 – Total number of member records by type

	30/09/2019	30/09/2020	+/-
Total Active Records	36,728	37,530	+802
Total Deferred Records	42,419	42,573	+154
Total Pensioner Records	31,488	32,507	+1,019
Total Dependant Records	4,636	4,702	+66



## Fund Performance against SLA – KPI's

As at 30 September 2020

Appendix 2

## Annex 1

		Cases Last Quarter				
		Measured Against SLA				
		Total Processed	Total Processed in Target	Percentage Processed within Target	Total Processed within 5 days of Target	Percentage Processed within 5 days of Target
Retirement (from Active)	Quote - 15 days	233	198	84.98%	18	92.70%
	Payment - 15 days	146	142	97.26%	3	99.32%
Retirement (from Deferred)	Quote - 30 days	91	51	56.04%	21	79.12%
	Payment - 15 days	277	270	97.47%	5	99.28%
Deaths	Notification - 5 days	99	99	100.00%	0	100.00%
	Payment - 10 days	91	86	94.51%	1	95.60%
Refund of contributions	Quote - 10 days	331	193	58.31%	28	66.77%
	Payment - 10 days	169	164	97.04%	1	97.63%
Deferreds (early leavers)	30 days	170	31	18.24%	139	100.00%
Transfers In	Quote - 10 days	65	25	38.46%	9	52.31%
	Payment - 10 days	48	31	64.58%	9	83.33%
Transfers Out	Quote - 10 days	114	21	18.42%	32	46.49%
	Payment - 10 days	14	8	57.14%	2	71.43%
Estimates	Member - 15 days	179	156	87.15%	19	97.77%
	Employer - 15 days	40	20	50.00%	5	62.50%
Divorce	Quote - 45 days	45	43	95.56%	0	95.56%
	Actual - 15 days	3	3	100.00%	0	100.00%
Starters	40 days	227	227	100.00%	0	100.00%
		2342	1768	75.49%	292	87.96%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

Tasks Last Quarter							
Average Days to Process	Actual Days to Process						
	0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+
9	94	80	24	18	14	3	0
5	98	40	4	3	1	0	0
32	72	5	2	1	2	1	8
3	242	24	4	5	1	0	1
0	99	0	0	0	0	0	0
3	79	7	1	4	0	0	0
15	101	92	28	25	43	13	29
4	134	30	1	3	0	1	0
61	6	3	5	4	7	6	139
17	16	9	9	20	1	2	8
15	21	10	9	3	3	1	1
30	5	16	32	18	19	5	19
22	4	4	2	0	0	0	4
9	84	46	26	19	4	0	0
12	13	5	2	5	14	1	0
14	16	8	10	1	6	0	4
2	3	0	0	0	0	0	0
5	188	34	4	1	0	0	0

RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target



## Annex 2

SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA (Old/New)	Q4 Oct 19 - Dec 19	Q1 Jan 20 - Mar 20	Q2 Apr 20 - Jun 20	Q2 Jul 20 - Sept 20	Trend
Retirement (from Active)	Quote - 5 / 15 days	81.39%	75.14%	93.94%	84.98%	
	Payment - 5 / 15 days	91.51%	95.21%	98.16%	97.26%	
Retirement (from Deferred)	Quote - 30 days	35.71%	45.78%	73.58%	56.04%	
	Payment - 5 / 15 days	93.42%	95.02%	98.75%	97.47%	
Deaths	Notification - 5 days	99.04%	99.21%	97.20%	100.00%	
	Payment - 5 / 10 days	73.61%	99.09%	92.16%	94.51%	
Refund of contributions	Quote - 10 days	78.87%	78.65%	45.07%	58.31%	
	Payment - 10 days	78.31%	76.68%	97.27%	97.04%	
Deferreds (early leavers)	Notification - 20 / 30 days	68.00%	96.84%	42.86%	18.24%	
Transfers In	Quote - 10 days	90.79%	80.25%	46.59%	38.46%	
	Payment - 10 days	83.58%	85.71%	47.83%	64.58%	
Transfers Out	Quote - 10 days	80.26%	90.27%	30.93%	18.42%	
	Payment - 10 days	29.17%	90.91%	31.25%	57.14%	
Estimates	Member - 10/15 days	60.66%	90.55%	86.84%	87.15%	
	Employer - 15 days	86.05%	68.75%	94.23%	50.00%	
Divorce	Quote - 45 days	100.00%	90.79%	92.00%	95.56%	
	Actual - 15 days	100.00%	100.00%	100.00%	100.00%	
Starters	40 days	99.71%	98.80%	99.42%	100.00%	

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

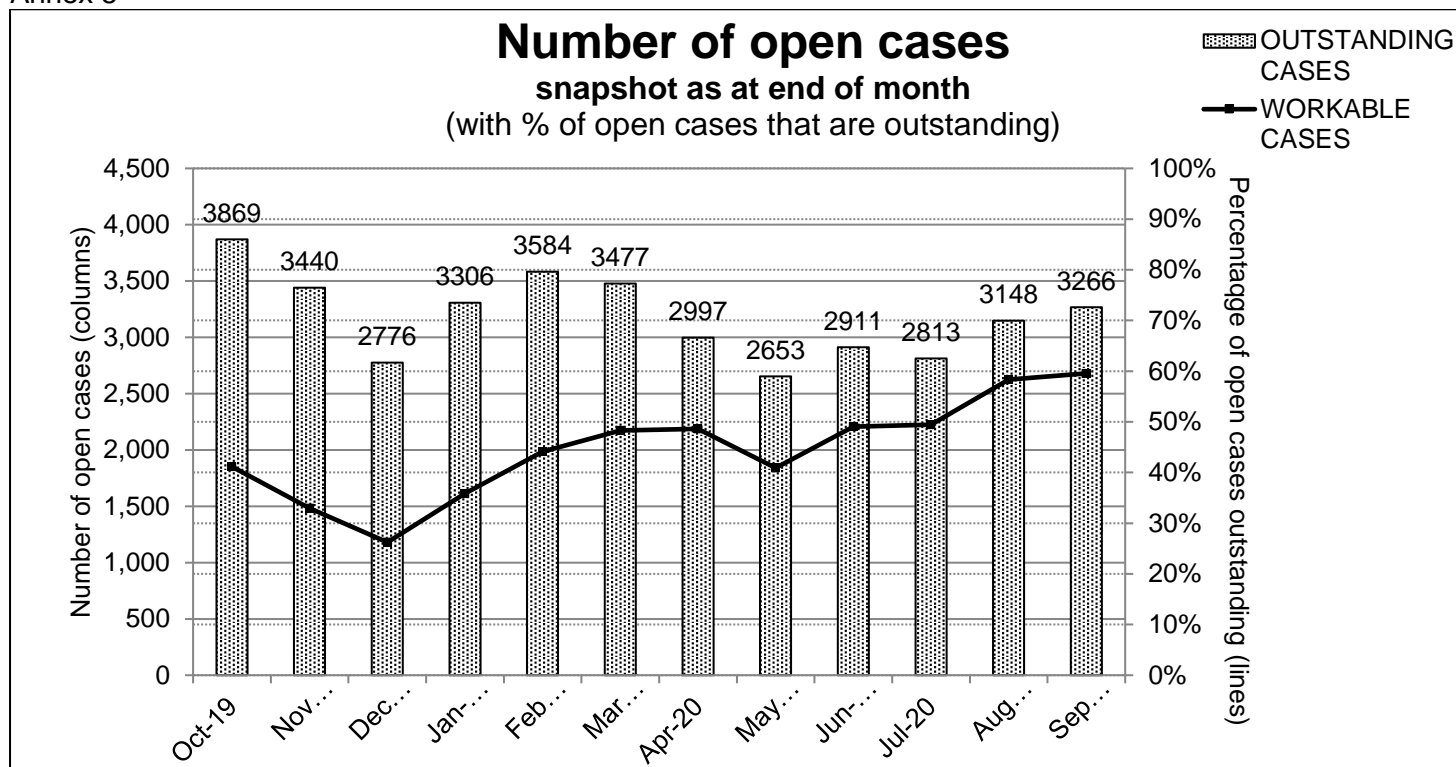
### Annex 3

Statutory requirements	Timescale/deadline	3 months to 30/09/20	Notes
Year End data from employer	by 30 June		428 out of 432 employers' YE data submitted in preparation for ABS run
Issue ABS	by 31 August		Deferred LGPS members sent June 2020 (Active LGPS members sent August 2020)
Issue Pension Saving Statements	by 6 <sup>th</sup> October	Issued w/c 19 <sup>th</sup> October	72 PSS Issued (68 LGPS & 4 FPS)
Notify scheme changes	within 3 months		N/A this period
Issue Active member newsletter	2 issues per year	YES	Issued May 2020 & August 2020
Issue Deferred member newsletter	1 issue per year	YES	June 2020
Issue Pensioner member newsletter	1 issue per year	YES	Issued May 2020

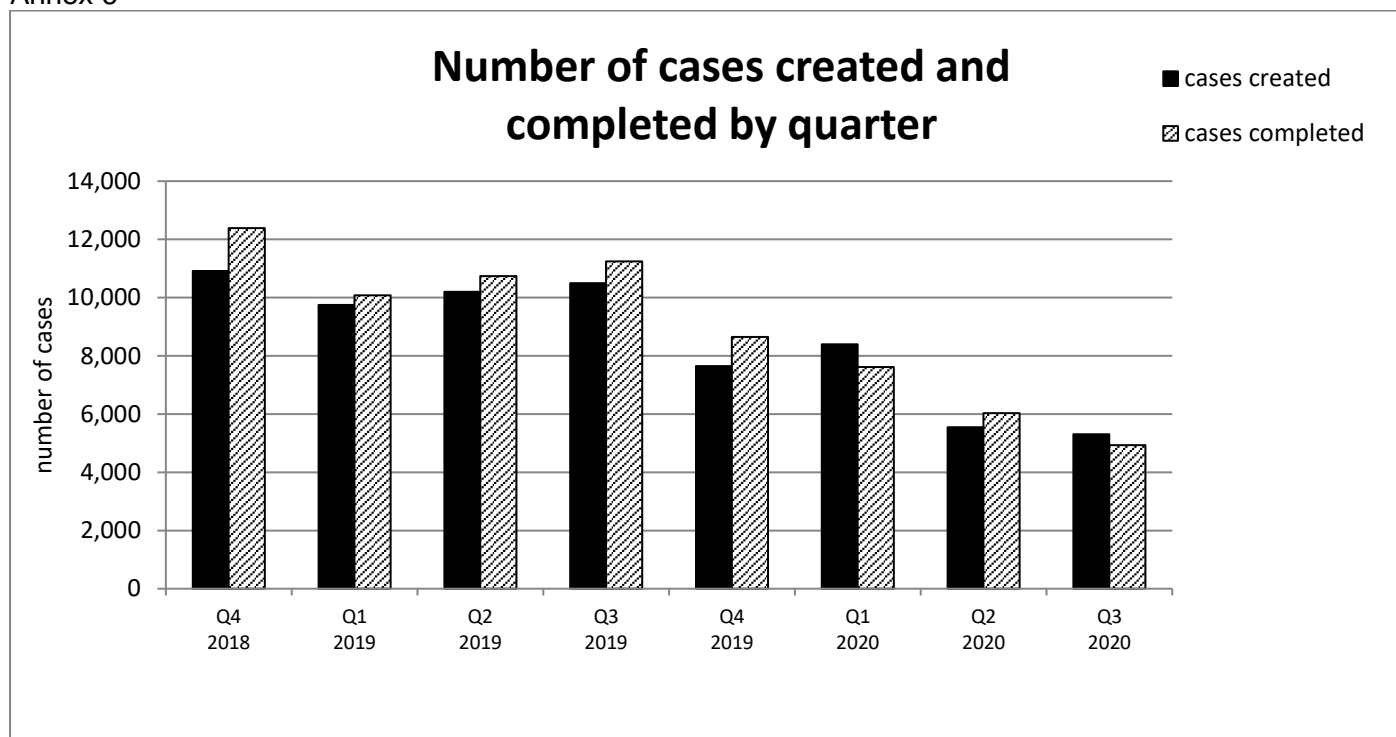
### Annex 4

Other performance standards	3 months to 30/09/20	2020/21 target	Notes
Retirements survey - satisfaction %	73%		
% of employers signed up to submit data electronically (ESS/iConnect)	66.1%	>100%	
% of active membership covered by ESS/iConnect	96.2%	95%	Appx 86% membership covered by i-Connect
% of all members with electronic access (MSS)	25.4 %	No target set	
% of active members with electronic access (MSS)	31.2 %	No target set	

## Annex 5



## Annex 6



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## Appendix 2a

### APF Completed Cases - Performance against Statutory Legal Deadline

		Cases Last Quarter - July 20 - September 20			
		Measured Against Statutory Legal Requirement			
		Target	Total Processed	Total Processed in Target	Percentage Processed within Target
Retirement (from Active)	Notification of Benefits	46 days	83	75	90.36%
Retirement (from Deferred)	Notification of Benefits	23/46 days	77	72	93.51%
Deaths	Notification of Benefits	46 days	87	87	100.00%
Refund of contributions	Notification of Entitlement	46 days	331	331	100.00%
Deferreds (early leavers)	Notification of Entitlement	46 days	170	170	100.00%
Transfers In	Provision of Quotation	46 days	51	35	68.63%
Transfers Out	Notification of Trf Value	69 days	114	101	88.60%
	Payment of Trf Value	138 days	14	14	100.00%
Estimates	Provision of Quotation	46 days	213	205	96.24%
Divorce	Provision of Quotation	69 days	45	43	95.56%
	Application of Order	92 days	3	3	100.00%
Starters	Statutory Notice Issued	46 days	227	227	100.00%

RAG key	
Red	Less than 75%
Amber	75 - 89%
Green	90 - 100%

#### Comments where performance has fallen below expected target:-

Transfers In – Due to working from home and lockdown restrictions with access to the office these cases were initially not a priority and our main focus was on paying benefits, transfer in cases are delayed at print stage causing a backlog.

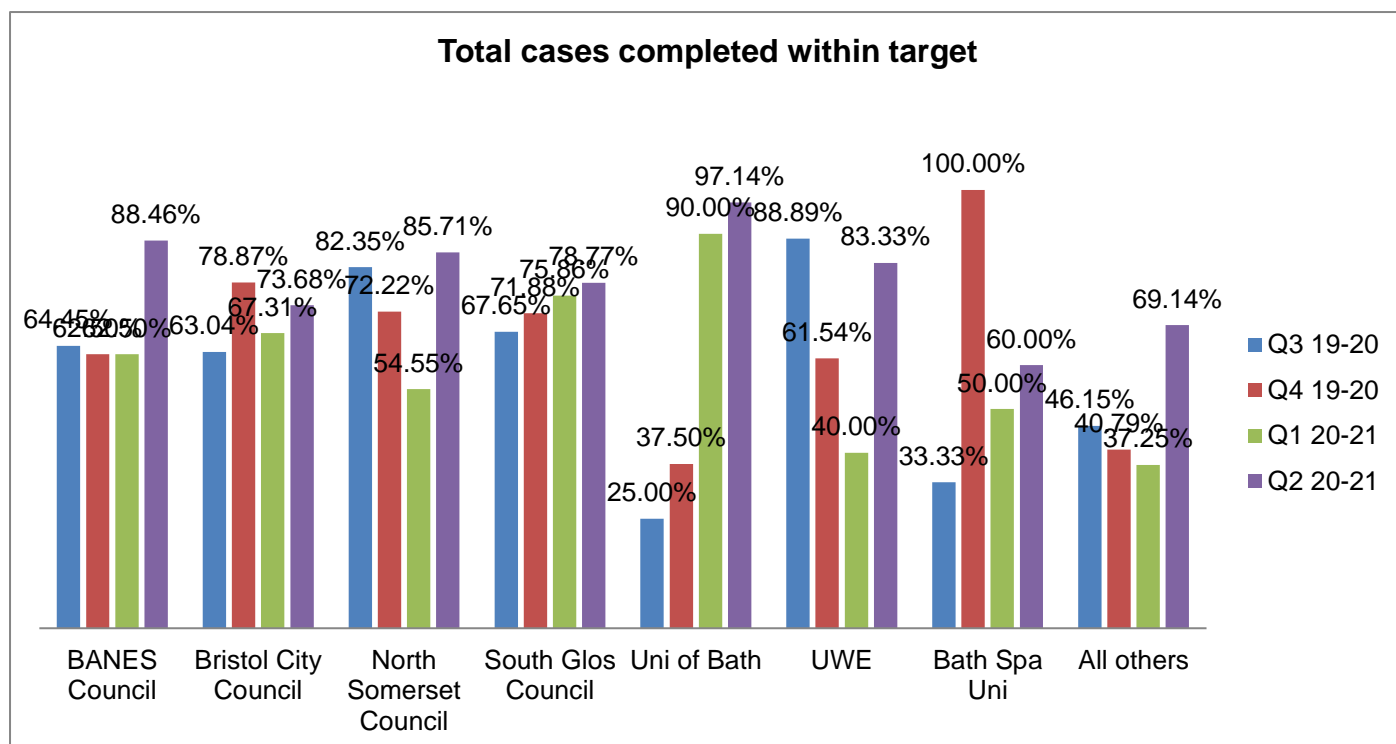
Transfers Out – Due to working from home and lockdown restrictions with access to the office these cases are not a priority and our main focus was on paying benefits, transfer out cases are delayed at print stage causing a backlog.

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Completed leaver forms by employers for retirements measured against SLA targets.

#### Annex 1 – Percentage of cases completed within SLA – 4 quarter trend

	Q3 19-20	Q4 19-20	Q1 20-21	Q2 20-21
BANES Council	64.45%	62.50%	62.50%	88.46%
Bristol City Council	63.04%	78.87%	67.31%	73.68%
North Somerset Council	82.35%	72.22%	54.55%	85.71%
South Gos Council	67.65%	71.88%	75.86%	78.77%
Uni of Bath	25.00%	37.50%	90.00%	97.14%
UWE	88.89%	61.54%	40.00%	83.33%
Bath Spa Uni	33.33%	100.00%	50.00%	60.00%
All others	46.15%	40.79%	37.25%	69.14%



#### Annex 2 – Breakdown of Case Numbers – Current Quarter

Within target	Retirements		
	Cases	Within	%
BANES Council	26	23	88.46%
Bristol City Council	38	28	73.68%
North Somerset Council	14	12	85.71%
South Gos Council	54	42	78.77%
Uni of Bath	35	34	97.14%
UWE	18	15	83.33%
Bath Spa Uni	5	3	60.00%
All others	81	56	69.14%

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## Annex 1 – TPR Errors by Member Numbers

	June 2020				September 2020				
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	Trend
ACTIVE	37798	391	1.03%	98.97	37523	506	1.35%	98.65	▲
UNDECIDED	3437	356	10.36%	89.64	3801	350	9.21%	90.79	▼
DEFERRED	42590	4314	10.13%	89.87	42573	4378	10.28%	89.72	▲
PENSIONERS	32259	208	0.64%	99.36	32506	206	0.63%	99.37	▼
DEPENDANTS	4917	93	1.89%	98.11	4927	99	2.01%	97.99	▲
FROZEN	3827	1379	36.03%	63.97	3862	1301	33.69%	66.31	▼
<b>TOTALS</b>	<b>124828</b>	<b>6741</b>	<b>5.40%</b>	<b>94.60</b>	<b>125192</b>	<b>6840</b>	<b>5.46%</b>	<b>94.54</b>	<b>▲</b>

## Annex 2 – Outstanding Queries by Type

	June 2020		September 2020		
	TPR Errors	%	TPR Errors	%	Trend
Age 75 exceeded LGPS eligibility issue	62	0.83%	63	0.84%	▲
CARE pay for 2014-2015 required	24	0.32%	37	0.49%	▲
CARE pay for 2015-2016 required	32	0.43%	35	0.47%	▲
CARE pay for 2016-2017 required	52	0.70%	36	0.48%	▼
CARE pay for 2017-2018 required	90	1.21%	67	0.90%	▼
CARE pay for 2018-2019 required	188	2.52%	119	1.59%	▼
CARE pay for 2019-2020 required	57	0.77%	160	2.14%	▲
Casual hours data required	20	0.27%	8	0.11%	▼
Historic refund case	689	9.25%	617	8.25%	▼
Leaver form required	243	3.26%	242	3.23%	▼
Correct Forenames required	9	0.12%	11	0.15%	▲
Correct gender required	1	0.01%	1	0.01%	▼
Correct NINO required	162	2.18%	163	2.18%	▲
Correct address required	5777	77.56%	5900	78.86%	▲
Correct title required ie Miss or Mr	10	0.13%	6	0.08%	▼
Pay Ref required	4	0.05%	2	0.03%	▼
Date joined fund	1	0.01%	0	0%	▼
Data required from a previous employer	27	0.36%	15	0.20%	▼
<b>Grand total</b>	<b>7448</b>	<b>100%</b>	<b>7482</b>	<b>100</b>	<b>▲</b>

Common Data

Scheme Specific Data

### Annex 3 – Outstanding TPR by status

	TPR Errors June 2020	%	TPR Errors September 2020	%
<b>1 ACTIVE</b>	<b>514</b>	<b>100%</b>	<b>625</b>	<b>100%</b>
Age 75 exceeded LGPS eligibility issue	1	0.19%	0	0%
CARE pay for 2014-2015 required	19	3.70%	33	5.29%
CARE pay for 2015-2016 required	25	4.86%	30	4.81%
CARE pay for 2016-2017 required	33	6.42%	28	4.48%
CARE pay for 2017-2018 required	55	10.70%	51	7.82%
CARE pay for 2018-2019 required	150	29.18%	103	16.48%
CARE pay for 2019-2020 required	52	10.12%	142	22.72%
Casual hours data required	9	1.75%	5	0.81%
Correct address required	129	25.10%	218	34.88%
Correct NINO required	8	1.56%	3	0.49%
Correct title required ie Miss or Mr	3	0.58%	0	0%
Pay Ref required	2	0.39%	1	0.17%
Leaver form required	13	2.53%	3	0.49%
Date joined Fund	1	0.19%	0	0%
Data Required from a previous employer	14	2.73%	8	1.28%
<b>2 UNDECIDED</b>	<b>451</b>	<b>100%</b>	<b>407</b>	<b>100%</b>
Age 75 exceeded LGPS eligibility issue	1	0.22%	3	0.74%
CARE pay for 2014-2015 required	5	1.11%	4	0.98%
CARE pay for 2015-2016 required	7	1.55%	5	1.23%
CARE pay for 2016-2017 required	19	4.21	8	1.97%
CARE pay for 2017-2018 required	30	6.65	15	3.69%
CARE pay for 2018-2019 required	37	8.20%	16	3.93%
CARE pay for 2019-2020 required	5	1.11%	18	4.42%
Casual hours data required	11	2.44%	3	0.74%
Correct address required	92	20.41%	88	21.62%
Leaver form required	230	51%	238	58.48%
Pay Ref required	1	0.22%	1	0.25%
Correct gender required	1	0.22%	0	0%
Correct NINO required	0	0%	2	0.48%
Data Required from a previous employer	12	2.66%	6	1.47%
<b>4 DEFERRED</b>	<b>4348</b>	<b>100%</b>	<b>4413</b>	<b>100%</b>
Age 75 exceeded LGPS eligibility issue	7	0.16%	7	0.16%
CARE pay for 2017-2018 required	5	0.11%	1	0.02%
CARE pay for 2018-2019 required	1	0.02%	0	0%
Correct address required	4288	98.62%	4359	98.78%
Correct NINO required	46	1.06%	46	1.04%
Correct title required ie Miss or Mr	1	0.02%	0	0%
Leaver Form Required	0	0%	0	0%

<b>5 PENSIONERS</b>	<b>209</b>	<b>100%</b>	<b>207</b>	<b>100%</b>
Correct address required	207	99.04%	204	98.55%
Correct gender required	0	0%	1	0.48%
Correct NINO required	2	0.96%	2	0.97%
<b>6 DEPENDANTS</b>	<b>96</b>	<b>100%</b>	<b>100</b>	<b>100%</b>
Correct address required	35	36.46%	35	35%
Correct title required ie Miss or Mr	5	5.21%	5	5%
Correct NINO required	56	58.33%	60	60%
<b>9 FROZEN</b>	<b>1830</b>	<b>100%</b>	<b>1728</b>	<b>100%</b>
Age 75 exceeded LGPS eligibility issue	53	2.90%	53	3.09%
Correct Forenames required	9	0.49%	9	0.52%
Correct title required ie Miss or Mr	1	0.05%	1	0.06%
Correct address required	1026	56.07%	996	57.62%
Correct NINO required	50	2.73%	50	2.89%
Historic refund case	689	37.65%	617	35.71%
Date joined fund required	0	0%	0	0%
Data Required from a previous employer	1	0.05%	1	0.06%
Pay ref required	1	0.05%	0	0%
Leaver form required	0	0%	1	0.06%
<b>Grand Total</b>	<b>7448</b>	<b>100%</b>	<b>7482</b>	<b>100%</b>

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## APPENDIX 5

### Late Payers to 30th September 2020

Employer	Payroll Month	Days late	Cumulative occasions	Amount    £	Significance	Reason / Action
July to September						
Sirona Healthcare	July	12	1	32,160.50	Days and value	Missed from that week's payment run in error.
Bath Spa University	August	3	2	245,681.28	Value	Employer apologised for the payment not being authorised in time.
Sirona Healthcare	August	5	2	32,160.50	Value	Employer stated that the issue leading to late payment has now been fixed. September contributions were paid early.
				310,002.28	Over The 3 Months	
Total Contributions in Period (excluding deficit payments)				35,845,678	Late payments value as a % of total = 0.86%. Late Payments received from 2 out of 406 employers.	
All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment. Where material, interest will be charged on late payments at base rate plus 1% in accordance with the regulations.						
Calculation of cumulative occasions is based on a rolling 12 month period, consequently the number of cumulative occasions can go down as well as up.						

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Risk	Risk Number	Impact	RAG	Trend	Mitigating Action (For Committee / Board report)
Recruitment of staff	R28	Fund's ability to develop & implement service plan and administer the Fund		◀▶	First phase of three phases of recruitment for Administration posts started in September 20. Trainer has been appointed to train the new recruits. A new member of the Investments Team has been appointed and will start in January 2021.
The introduction of the exit payment cap	R53	This will place an additional burden on the administration resource		▲	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 us in an uncertain position legally and we are in the process of seeking legal advice on how to proceed with cases in the interim period. There is also further reform expected with the LGPS regulation amendments.
McCloud/Sargeant Judgements resulting in the extension of protections	R63	Increase in workload on administration side and for scheme employers		◀▶	The consultation has now closed and we expect a response 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.
Deterioration in financial stability of employers (employer Covenants)	R23	employers not able to meet their liabilities impact on rest of Fund		◀▶	The covenant work plan has been agreed & is being implemented. Experiencing an increase in contribution queries from outsourcing employers about pension costs on their contracts. Actively considering the changes to the USS debt arrangements with employers which would mean LGPS ranks lower in event of insolvency, which will affect covenant of HE's. Policy being developed for Deferred Debt Arrangements (regulations passed but implementation guidance is not due until early 2021).
Failure to earn investment returns	R26	scheme cannot meet liabilities, employer costs could rise		◀▶	Review of Investment Strategy & risk management strategies. Specialist advisors used. Revised ISS was approved in April 2020. Market volatility & event risk remains but significant market recovery has led to Fund recovering Q1 losses. Portfolio positioned defensively with min exposure to UK equities.
Political Pressure to reform the scheme & direct investment decisions eg ESG	R42	National decisions are not in best interests of the scheme		◀▶	Participate in Brunel pool. ISS aligned with Fund's Climate Change policy. Recent supreme court judgement against S&P re ESG guidance clarifies that government only has power over how funds invests, not what they invest in. Have good local governance but national decisions could impact/
Increase in employers	R56	increased resources needed to support more employers		◀▶	Additional resources have been put into Employer Services to support & train employers. Phase one of three phases of recruitment started September 20. Trainer has been appointed to train the new recruits. Currently more employer exits than new admissions.
Climate Change Emergency	R60	Significant financial risk to the value of the investments assets		◀▶	SAA revised to a higher allocation to climate positive investments. Unable to control global markets in general only through strategy.
Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	R05/R58	Personal data is corrupted, compromised or illegally shared resulting in fines & reputational		◀▶	Working through Data Protection project plan with assistance of Banes DPO. New processes put in place for remote working due to Coronavirus (DPIA assessment carried out) Cyber Security E-Learning for all staff
Inadequate knowledge of those charged with governance. Committee Members knowledge is impacted by re-election process. Failure to comply with statutory regulations	R25	delays in decision making for the Committee & Fund. Failure to meet MIFID & TPR regs		◀▶	Training plan in place and independent members appointed. Taking part in Hymans National Knowledge Assessment for Committee & Board members.
Implementation of changes arising from scheme cost cap mechanism	R47	Additional burden on administration. Awareness of members & employers		◀▶	On 16 July 2020 the Government made an announcement confirming that the cost control mechanism pause will be lifted for public sector schemes and the objective would be to complete the process by next year, taking into account the cost of the proposals to remedy age discrimination. The SAB further agreed that the LGPS cost cap arrangement should be un-paused in the same way as the HMT arrangement, but no action should be taken until the HMT Direction, on how McCloud costs are to be considered, is published early next year along with the final remedy details.
Delays in transition of assets to Brunel or Brunel fails to deliver its objectives	R54	delays could impact pool's ability to deliver savings in line with business case or pool could fail if		◀▶	Brunel Transition Plan monitored by Client Group & BOB. Investment Panel & Committee monitor. Slight delay in 2020 transitions due to COVID. Transition plan restarted in July 2020. Loss of CIO means less senior management resources for 3- 9 months
Iconnect data from employers	R59	Incorrect member data on records and valuation of employer liabilities		◀▶	Iconnect Team has been set up and extracts are now loaded inhouse, controls are being reviewed
Sustainability of working arrangements during Covid 19 outbreak	R64	Unable to deliver service to members and employers		◀▶	Steps have been taken to mitigate the risk of Coronavirus impacting on the service as set out in our business continuity update report circulated to Committee members June 2020. TPR/SAB guidance continues to be reviewed as received & procedures reviewed as necessary. 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 app April 2021
Late / incorrect contributions from employers	R10	cashflow, employer funding position, TPR breach		◀▶	Monthly reconciliation, follow up in line with TPR code and late payers reported to Committee & Board. Top 34 employers contributing into the fund continue to pay on time. No significant increase in terms of other employers paying late, but this should still be monitored very closely as the situation continues to evolve.
Service delivery efficiency & customer service	R29	poor member outcomes		◀▶	Monitoring & reporting of Fund performance against statutory & TPR requirements. Admin & Comms strategy. Procedures have been updated for remote working and priority work has been identified, but currently risk of backlogs & complaints. A review of forms that are sent to members with a requirement of a signature to see if electronic signature acceptable rather than wet signature. Looking at ways to develop how we communicate with our members, as still a high dependence on the postal system. This issue is being addressed in the scope of an organisational-wide project, which will include the digitisation of our communications with scheme members.

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Governance Risks						Impact		Investment & Funding Risks					
Total	0	0	0	0	0	Negligible	0	0	0	0	0	Total	
4	1	0	0	0	0	Low	0	0	2	1	2	11	
	1	0	0	1	0	Medium	0	1	0	0	0		
	0	0	0	0	0	High	0	3	0	0	1		
	0	0	0	0	1	Critical	0	0	1	0	0		
Likelihood	Rare	Unlikely	Possible	Likely	Almost Certain		Almost Certain	Likely	Possible	Unlikely	Rare	Likelihood	
	0	0	0	0	0	Critical	0	0	0	0	0		
	0	0	4	1	2	High	0	0	0	0	0		
	2	1	1	0	0	Medium	0	0	1	0	1		
Total	0	0	1	0	0	Low	0	0	0	0	0	Total	
13	0	1	0	0	0	Negligible	0	0	0	0	1	3	
Administration Risks						Impact		Financial Risks					

The above tables show the number of risks, broken down by type, and their current risk exposure

Key:- Based on Risk Score

	1-6
	7-14
	15-25

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## AVON PENSION FUND/B&amp;NES: IDRP Stages 1 and 2

Stage	Reason	IDRP Form Received	Stage 1 By	Date For Review Completion	Delay Letter Sent	Review Complete	Not Upheld[NU] Upheld[UP] or Upheld & referred back [URB]	By	Last date for next stage Appeal	Note
1	Maladministration	29/03/2020	APF	29/05/2020	N/A	04/05/2020	NU	APF Technical & Compliance Advisor	04/11/2020	
1	Maladministration	09/04/2020	APF	09/06/2020	N/A	29/05/2020	NU	APF Technical & Compliance Advisor	29/11/2020	
1	Ill Health Retirement	17/08/2020	EMP	17/10/2020	N/A	10/09/2020	UP	Employer	N/A	Ill Health Retirement
1	Maladministration	25/09/2020	APF	25/11/2020	N/A	23/10/2020	UP	APF Technical & Compliance Advisor	N/A	£500 Distress & Inconvenience Payment Awarded

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	11 DECEMBER 2020	AGENDA ITEM NUMBER
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2020 (2) CASHFLOW FORECAST	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1	Summary Financial Accounts: Year to 31 October 2020	
Appendix 1A	Summary Budget Variances: Year to 31 October 2020	
Appendix 2	Cash Flow Forecast	

## **1 THE ISSUE**

- 1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 7 months to 31 October 2020. This information is set out in Appendices1 and 1A.
- 1.2 This report also contains the Cash Flow forecast for the year to 31 March 2021. This information is set out in Appendix 2

## **2 RECOMMENDATION**

**That the Committee notes:**

- 2.1 The administration and management expenditure incurred for 7 months to 31 October 2020.**
- 2.2 The Cash Flow Forecast at 31 October 2020.**
- 2.3 The forecast overspend in Governance and Compliance costs, which is financed through savings elsewhere in the budget.**

## **3 FINANCIAL IMPLICATIONS**

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

## 4 COMMENT ON BUDGET

- 4.1 The summary Financial Accounts for the 7 months to 31 October 2020 are contained in **Appendix 1**.
- 4.2 The forecast for the year to 31 March 2021 is for expenditure to be £249,000 below budget.
- 4.3 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.
- 4.4 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.
- 4.5 Overall the budget forecast is still within the 2020/21 budget envelop with a small underspend of £104,000.
- 4.5 There are a number of movements between items for the committee to note:

a) Increase in Compliance Costs budget by £145k from £568k to £713k:

The actuarial budget is largely demand driven by employers plus major projects such as valuations that can be planned for. The budget includes a contingency which normally covers unplanned work. However, this year the significant increase in regulatory changes and the need to liaise more with Mercers in respect of the impact of COVID on employers and the funding strategy means that much of the contingency has already been used.

The main cost pressures are:

- i. Implementation of new funding tool. This has added functionality which should reduce the Fund's reliance (and costs) on Mercer for monitoring individual employers and will feed into covenant monitoring. In addition to normal fees that were budgeted, there were on-boarding costs of all the employer data.
- ii. Recalibration of the low risk and LDI strategies for the revised liability profile arising from the 2019 valuation. This is a larger exercise than the annual recalibration for cashflows that was budgeted for (these strategies were not in place at the previous triennial valuation).
- iii. Advice arising from RPI reform which has meant changes in market prices for implied inflation need to be reflected in our funding assumptions.

b) Increase in Investment Consultancy by £25,000:

The increase in costs are due to implementation of the dynamic equity hedging strategy and advice on the strategic implications of RPI reform. The upfront costs of implementation of the new hedging strategy are higher than budget due to the approach being taken; however, the ongoing governance and monitoring costs will be lower. These costs are offset by savings elsewhere in the investment consultancy budget and use of contingency.

- 4.6 Explanations of the most significant variances are contained in Appendix 1A to this Report.
- 4.7 The ongoing implications of the pandemic and employer covenants, governance and compliance will be fully reviewed as part of the budget planning process for 2021/21 which be presented to Committee in March

## 5 CASH FLOW FORECAST

- 5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Net cash outflows are managed by divestments and taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2**.
- 5.2 The 2020 - 2023 Service Plan included a cash flow forecast showing a gross in-flow of c£197.5m and a gross out-flow of c£197.2m giving a net inflow in 2020/21 of just over £0.4m. The forecast gross inflow included £7m divestments and investment income.
- 5.3 The actual cash flow to 31 October was an outflow of c£21.4m against a budgeted outflow of c£15.7m for the same period. The difference was mainly due to a reduction in the amount of cash that can be held by the Council's treasury management team from £45m to £35m during the period. This cash has been transferred to the Fund's custodian, State Street, and will be drawn back down throughout the year. In April 2020, £84m cash relating to contribution prepayments was invested via State Street. The Fund increased the investment cash balance in 1Q20 so there was adequate liquidity to meet private market drawdowns through to end 3Q20.
- 5.4 It is currently predicted that a combination of lower lump sum payments and a positive contribution of transfers in/out of the fund will lead to a positive cashflow before transfers to/from the custodian of £15.3m. Offset against this is a net £8.8m transfer to the custodian compared to the original prediction of a £7m divestment, resulting in a variance of £15.8m. This will result in forecast outturn for the year to 31 March 2021 of a cash outflow of c£0.5m more than predicted in the Service Plan.

## 6 CLIMATE CHANGE

- 6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 7 EQUALITIES

- 7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 8 OTHER OPTIONS CONSIDERED

- 8.1 None.

## 9 CONSULTATION

- 9.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	David Richards Finance & Systems Manager (Pensions) Tel: 01225 395369.
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<b>Background papers</b>	Various Accounting Records
<b>Please contact the report author if you need to access this report in an alternative format</b>	



# APPENDIX 1

## AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2021

	7 Months To End 31st October			FULL YEAR 2020/21		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
<b>Administration</b>						
Investment Expenses	16,498	1,887	(14,611)	28,280	16,280	(12,000)
Administration Costs	52,003	41,403	(10,600)	89,147	79,147	(10,000)
Communication Costs	84,043	89,390	5,347	144,073	144,073	0
Payroll Communication Costs	62,807	55,778	(7,029)	107,669	107,669	0
Information Systems	218,657	475,492	256,835	374,841	374,841	(0)
Salaries	1,528,482	1,265,851	(262,631)	2,620,255	2,378,255	(242,000)
Central Allocated Costs	314,215	1,045	(313,170)	538,652	538,652	0
IT Strategy	0	0	0	0	0	0
Miscellaneous Recoveries/Income	(128,625)	(138,741)	(10,116)	(220,500)	(220,500)	0
<b>Total Administration</b>	<b>2,148,080</b>	<b>1,792,104</b>	<b>(355,976)</b>	<b>3,682,417</b>	<b>3,418,417</b>	<b>(264,000)</b>
<b>Governance &amp; Compliance</b>						
Investment Governance & Member Training	277,550	216,417	(61,133)	475,800	500,800	25,000
Members' Allowances	24,547	4,343	(20,204)	42,080	42,080	0
Independent Members' Costs	33,833	17,989	(15,844)	58,000	48,000	(10,000)
Compliance Costs	331,293	379,186	47,893	567,930	712,930	145,000
Brunel Expenses	14,583	7,687	(6,896)	25,000	25,000	0
Compliance Costs recharged	(116,666)	(53,649)	63,017	(200,000)	(200,000)	0
<b>Total Governance &amp; Compliance</b>	<b>565,140</b>	<b>571,973</b>	<b>6,833</b>	<b>968,810</b>	<b>1,128,810</b>	<b>160,000</b>
<b>Pensions Board</b>	<b>26,250</b>	<b>835</b>	<b>(25,415)</b>	<b>45,000</b>	<b>45,000</b>	<b>0</b>
Global Custodian Fees	39,083	4,135	(34,948)	67,000	67,000	0
Brunel Management Fees	953,750	948,565	(5,185)	1,635,000	1,635,000	0
Investment Fees	14,425,630	9,112,061	(5,313,569)	28,851,260	22,985,733	(5,865,527)
<b>Total Investment Fees</b>	<b>15,418,463</b>	<b>10,064,761</b>	<b>(5,353,702)</b>	<b>30,553,260</b>	<b>24,687,733</b>	<b>(5,865,527)</b>
<b>NET TOTAL COSTS</b>	<b>18,157,933</b>	<b>12,429,673</b>	<b>(5,728,260)</b>	<b>35,249,487</b>	<b>29,279,960</b>	<b>(5,969,527)</b>

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**Summary of main budget variances: Year ending 31st March 2021**

Variances Analysis of the forecast full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most significant reasons for variance
Investment Expenses	(12,000)	Staff travel and training for Investments Team
Administration costs	(10,000)	Staff travel for Administration Team
Salaries	(242,000)	Reduced salaries expenditure due to delays in filling vacant posts against budget in Benefits team

**Administration (264,000)**

Investment Governance & Member training	25,000	Predicted overspend on dynamic equity strategy and recalibration of RM strategies post 2019 valuation offset by savings from projects needing less advice and use of contingency
Independent members costs	(10,000)	Recruitment of independent member delayed
Compliance Costs	145,000	Implementing new funding modeller, changes to LGPS regulations, RPI reform advice on funding basis and recalibration of low risk and LDI strategies post 2019 valuation

**Expenditure outside direct control** **160,000**

**Total** **(104,000)**

\*() variance represents an under-spend, or recovery of income over budget

+ve variance represents an over-spend, or recovery of income below budget

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**Cash Flow Forecast**

		SEVEN MONTHS TO 31 OCTOBER 2020			FULL YEAR 2020/21		
		Forecast Per	Actual	Variance	Forecast Per	Out-turn	Variance
		Service Plan			Service Plan	Forecast	
		£'000	£'000	£'000	£'000	£'000	£'000
<b><u>Benefits Outflows</u></b>							
Benefits	Pensions	(91,026)	(92,107)	(1,081)	(156,044)	(157,898)	(1,854)
	Lump sums	(17,953)	(13,002)	4,951	(30,777)	(22,289)	8,488
<b>Total Benefits Outflows</b>		<b>(108,979)</b>	<b>(105,109)</b>	<b>3,870</b>	<b>(186,821)</b>	<b>(180,187)</b>	<b>6,634</b>
<b><u>Inflows</u></b>							
Deficit recovery		24,444	47,097	22,653	48,888	48,747	(141)
Future service Contributions		70,819	95,147	24,328	141,638	144,212	2,574
<b>Total Contributions</b>		<b>95,263</b>	<b>142,244</b>	<b>46,981</b>	<b>190,525</b>	<b>192,959</b>	<b>2,434</b>
Net Cash Flow (excluding Administration & Investment costs)		<b>(13,716)</b>	<b>37,135</b>	<b>50,851</b>	<b>3,704</b>	<b>12,772</b>	<b>9,068</b>
Investment Income received as cash			38	38		76	76
Net Transfers In & Out (budgetted as zero)		0	2,187	2,187	0	3,749	3,749
Administration costs		(6,078)	(4,673)	1,405	(10,420)	(8,011)	2,409
<b>Net Cash Flow/(Out-Flow) before cash transfers with Custodian</b>		<b>(19,794)</b>	<b>34,687</b>	<b>54,481</b>	<b>(6,716)</b>	<b>8,587</b>	<b>15,302</b>
Cash transferred (to)/from Custodian		4,083	(56,100)	(60,183)	7,000	(8,845)	(15,845)
<b>Net Cash Flow/(Out-Flow)</b>		<b>(15,711)</b>	<b>(21,413)</b>	<b>(5,702)</b>	<b>284</b>	<b>(258)</b>	<b>(543)</b>

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>11 December 2020</b>
TITLE:	<b>WORK PLANS</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1a-e – Service Plan monitoring</b></p> <p><b>Appendix 2 – Committee Work plan</b></p> <p><b>Appendix 3 – Investments Panel Work plan</b></p> <p><b>Appendix 4 – Training Programme 2019-21</b></p>	

## **1 THE ISSUE**

- 1.1 Attached to this report is the new quarterly monitoring report for the Service Plan. This covers a high level overview of all projects for the Investments and Pensions Administration teams including progress to date.
- 1.2 In addition there is a work plan for the Committee and a separate one for the Investment Panel which set out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.
- 1.3 The provisional training programme for 2019-21 is included as Appendix 4.
- 1.4 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.

## **2 RECOMMENDATION**

- 2.1 That the Committee notes the quarterly monitoring report for the Service Plan, The Committee & Investment Panel work plans and training programme for the relevant period.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 There are no financial considerations to consider.

## 4 THE REPORT

4.1 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.

4.2 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.

## 5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2020	2021	2022	2023
27 March	26 March	25 March	24 March
26 June	25 June	24 June	23 June
25 September	24 September	23 September	22 September
11 December	10 December	16 December	15 December

5.2 Investment panel meetings as currently scheduled:

2020	2021
6 March	26 February
5 August	28 May
11 September	10 September
20 November	19 November

## 6 RISK MANAGEMENT

6.1 Forward planning and training plans form part of the risk management framework

## 7 EQUALITIES STATEMENT

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 9 OTHER OPTIONS CONSIDERED

9.1 None

## 10 CONSULTATION

10.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.



<b>Contact person</b>	Carolyn Morgan, Governance and Risk Advisor, 01225 395240
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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# Appendix 1a - Administration Strategy

Key Objectives	Tasks	Target Date	Status
<b>COMMUNICATION</b>			
Member digital engagement	Activate online ABS availability	Aug-21	Planned but not started
	Strategy to Maximise MSS take up	Dec-22	In progress on target/complete
Member Website	Review member website - accessibility issues	Sep-20	In progress on target/complete
	Content review	Nov-20	In progress but potentially off target
Employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Dec-21	In progress on target/complete
	Review Employer website - accessibility issues	Sep-20	In progress on target/complete
	Provide 'knowledge hub' including video training elements	Dec-21	In progress on target/complete
	Implement plan for ongoing review of content	Nov-20	In progress but potentially off target
Fire Scheme Member digital engagement	Launch AF&R website with MSS functionality	Jan-21	In progress but potentially off target
Embrace partnership and collaborative opportunities as they arise at both regional and national level	Collaborative working with LGA/SAB on delivery of national firefighter member website	Dec-20	In progress on target/complete
<b>IT STRATEGY</b>			
<b>Housekeeping</b>			
Working relationship with Financial Systems	Review and implementation of SLA between APF & Financial Systems	Jun-20	In progress but potentially off target
User Groups	Participation in i-connect and MSS User Groups – development of product specifications	Ongoing	In progress on target/complete
<b>Improvements</b>			
Progress full employer electronic data delivery	Completion of i-connect project	Mar-22	In progress but potentially off target
	Implement monitoring & controls	Jul-20	In progress but potentially off target
	Reconciliation of contributions & i-connect extract	Mar-20	In progress on target/complete
Enhance employer support/decision making capabilities	Roll out of employer online discretionary policy tool/including training & support	Aug-20	In progress on target/complete

<b>Development</b>			
Progress software developments with Heywood	Development of online leaver form	Dec-20	In progress but potentially off target
	Enhanced secure 2 way portal functionality	Dec-21	Not planned or started
	Development of reporting functionality via Iconnect & dashboard	Dec-20	In progress on target/complete
	Progress ability to bulk delete member records according to data retention policy	On going	In progress on target/complete
Development of management information hub	Review suitability of available systems [ERM/CRM]	Apr-19	In progress but potentially off target
	Further Development of ERM & roll out to all Teams	Dec-20	In progress on target/complete

<b>RECRUITMENT &amp; TRAINING</b>			
Recruitment	Project to make temp posts permanent	Mar-20	In progress on target/complete
	Project to fill app 10 posts across Member & Employer Services	Sep-20	In progress on target/complete
	Implement temporary training & support role	Jul-20	In progress on target/complete

Review structure & JDs	Look at requirement for training and support Team	Sep-20	In progress on target/complete
	Generic & link graded JDs	Sep-20	In progress on target/complete
Introduce staff training programme	Training plan for new staff	Jun-20	In progress on target/complete
	Training plan for existing staff	Ongoing	In progress on target/complete
	Induction		Planned but not started
	Scheme Specific training	End - 2020	Planned but not started
	Data requirements		Planned but not started
	Governance & compliance		Planned but not started
	Legislation		Planned but not started
	IT Skills		Planned but not started
	GDPR		Planned but not started
Review & Implement employer training programme	Employer responsibilities	Sep-20	In progress on target/complete
	Data & TPR requirements	Sep-20	In progress on target/complete
	I-Connect	Sep-20	In progress on target/complete
	HR Development	Sep-20	In progress on target/complete
	Discretionary Policy tool	Aug-20	In progress on target/complete
Chargeable Services Offer	Set up framework to manage chargeable services	end 2021	Not planned or started
	Develop chargeable services brochure	end 2021	Not planned or started

<b>OTHER PROJECTS</b>			
Revise Fire Service model	Develop revised service offer and SLA	Apr-19	In progress but potentially off target
Key Person Risk	Succession Planning	Jun-20	In progress on target/complete
	Review documentation of procedures	Jun-20	In progress on target/complete
Implement new SLA's with employers	Roll out of new SLA to all employers	Aug-20	In progress but potentially off target
TPR Data improvement	Address Rectification		
	· Manual forensic tracing	Sep-20	In progress on target/complete
	Review common and conditional reports & consolidate	Dec-20	In progress on target/complete
	Review DIP for Fund	Dec-20	In progress on target/complete
	Care Roll up	Jun-20	In progress on target/complete
	Review outstanding tasks and review old tasks eg casual hours, 2014 Care pay	Dec-20	Planned but not started
	Consistency Checks	Dec-20	Planned but not started
McCloud	Implementation of remedy - Fire	Apr-22	Not planned or started
	Implementation of remedy - LGPS	Apr-22	Not planned or started
	Plan needed to prepare	Dec-20	In progress on target/complete
	Review requirement for hour changes	Dec-20	In progress on target/complete
LGPS Cost Cap Mechanism	Preparation required in case of backdated implementation	Mar-21	Not planned or started
£95k Exit Payments Cap	Implementation Project	Nov-20	In progress but potentially off target
MHCLG Further Reforms to Exit Payments	Implementation Project	Feb-21	Planned but not started
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-21	In progress on target/complete
	GMP equalisation	await details	Not planned or started
Processing Backlogs	To clear outstanding task work set at 'Reply Due' (4000 cases)	review 2021	Not planned or started

Internal Dispute Resolution Policy	Review internal process – identify resource for stage 1 & 2 review and develop employer engagement	Jul-21	<b>In progress on target/complete</b>
	Review general complaints process prior to IDRP and incorporate learning into processes	Jul-21	<b>In progress on target/complete</b>
Statutory refund payment	Review of member data to establish qualifying entitlement to statutory refund under LGPS Regs 2014	Ongoing	<b>In progress on target/complete</b>
DWP Pensions Dashboard	Plan required for implementation	2022	<b>Not planned or started</b>

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Appendix 1c - Investment Strategy			
Key Objectives	Tasks	Target Date	Status
Transition of assets	Input as member of Brunel Client Group	Ongoing	In progress on target/complete
	Monitor Avon plan for transitioning assets based on Brunel plan	Ongoing	In progress on target/complete
Implement investment strategy projects maintaining compliance with the Fund's Investment Strategy and Policies	Approve revised Investment strategy	by 30 April 2020	In progress on target/complete
	· New private market allocations	Commitments made	In progress on target/complete
	· Strategic Benchmark review	3Q20	In progress on target/complete
Monitor risk management strategies ensuring collateral managed efficiently and decisions taken in timely manner	Liaise with Mercer and Blackrock as to exposures, trigger points and monitoring framework	Ongoing	In progress on target/complete
	Annual review of trigger points and strategy	Annually 3Q	In progress on target/complete
	Implement new Equity Protection Strategy	1Q20	In progress on target/complete
	Explore dynamic hedging	3Q20	In progress on target/complete
	Arrange Panel & committee training as needed	ongoing	In progress on target/complete
Annual review of Investment Strategy Statement (ISS)	Annual or when make significant changes to ISS	June 2020 (reflect new strategy)	In progress on target/complete
Investment advisory contract retender	Procure using National Framework	2021/22	Not planned or started
Review of Responsible Investing Policy	Review policy as to effectiveness and incorporate new initiatives post transition of assets , when Brunel service offering more developed	2022/23	Not planned or started
	Avon to participate in Brunel RI sub group	ongoing	In progress on target/complete
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	31/12/20	In progress on target/complete
Team Resources	Appoint Senior Investment Officer	3Q20	In progress but potentially off target
	Consider team structure post asset transition	From 2020/21	Not planned or started
Investment Communications Strategy	Agree strategy across all stakeholders	Jun-20	In progress on target/complete
	o Website	ongoing	In progress on target/complete
	o Newsletters	ongoing	In progress on target/complete
	o Forums/ meetings	ongoing	In progress but potentially off target

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<b>Appendix 1d - Governance</b>			
<b>Key Objectives</b>	<b>Tasks</b>	<b>Target Date</b>	<b>Status</b>
Review governance arrangements following Good Governance Review & the pooling of assets	Review ToR of Committee and Investment Panel	Jun-20	In progress on target/complete
	Review Governance Compliance statement	Jun-20	In progress on target/complete
	Conflicts of Interest Policy	Jun-20	In progress but potentially off target
	Policy on Committee Representation	Jun-20	In progress but potentially off target
	Training policy	Jun-20	In progress but potentially off target
	R&R matrix	Jun-20	In progress but potentially off target
	Cyber security	Dec-20	In progress on target/complete
	Review disaster recovery / business continuity plan	Jun-20	In progress on target/complete
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing	In progress on target/complete
Independent Members on Committee	Appoint Independent Member. Terms end 2Q22 (end of 2nd term for one member)	Start January 2022	Not planned or started
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in June	In progress on target/complete
Legal contract retender	Procure using National Framework	2020	In progress on target/complete
Committee & Pension Board	Develop online portal for PC & LPB members – public and secure areas	Jun-20	In progress on target/complete
	Review papers and content that go to committee and set up library on Modern Gov	Jun-20	In progress but potentially off target
	Document process for dealing with ineffective pension boards	Sep-20	Not planned or started

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<b>Appendix 1e - Finance</b>			
<b>Key Objective</b>	<b>Tasks</b>	<b>Target Date</b>	<b>Status</b>
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	Sep-20	<b>In progress but potentially off target</b>

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## Committee Work plan to March 2021

<b>26 JUNE 2020</b>
PB minutes
Roles & Responsibilities of the Committee, Governance Compliance Statement
Brunel Portfolio annual performance & Corporate update – Presentation by Brunel
Annual Review of Investment Strategy & Performance
Approval of ISS for consultation by PB
FRC Stewardship Code Compliance Statement
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Update on Legislation
Pension Fund Administration – Performance Indicators for Year and Risk Register
Budget & Cashflow Monitoring 2019/20 – outcome
Workplans
<b>Planned Workshops:</b> none

<b>25 SEPTEMBER 2020</b>
PB minutes
Annual Responsible Investing Report including presentation by Brunel
Annual Review of Risk Management Strategies
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Review of Investment Performance
Approval of ISS post PB review
Update on Legislation
Pension Fund Administration –Performance Indicators and Risk Register
Budget & Cash flow Monitoring
Noting of Final Accounts 2018/19 (offline)
Approval of Committee’s Annual Report to council (offline)
Pension Board Annual Report
Work plans
<b>Planned Workshops:</b> none

11 DECEMBER 2020
PB minutes
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Review of Investment Performance for Quarter
Update on Legislation
FRC Stewardship Code for noting
CMA Order Compliance (for Investment Consultant)
Pension Fund Administration –Performance Indicators for Quarter and Risk Register
Budget & Cashflow Monitoring
Review of AVC arrangements
Workplans
<b>Planned Workshops:</b> none

26 MARCH 2021
PB minutes
Annual Review of Risk Register
Budget and Service Plan 2021/24
Annual Employer Update
Update on Brunel Pension Partnership
Report on Investment Panel Activity
Review of Investment Performance for Quarter
Update on Legislation
Pension Fund Administration – Performance Indicators for Quarter
Budget & Cashflow Monitoring
Workplans
<b>Planned Workshops:</b> none



## INVESTMENT PANEL WORKPLAN

Panel meeting	Proposed agenda
5 August 2020	<p>Strategic</p> <ul style="list-style-type: none"> <li>• EPS proposal for September rollover; initial discussion on dynamic hedging options</li> <li>• Scope of equity portfolio review (or Sept meeting)</li> <li>• Forward meeting agenda for Panel</li> </ul>
11 September 2020	<p>Strategic</p> <ul style="list-style-type: none"> <li>• Revised Strategic Benchmark</li> <li>• Scope of equity portfolio review</li> <li>• Review of LDI triggers given new liability benchmark</li> <li>• Brunel presentation - UK Property Portfolio proposal to transition to Brunel</li> </ul> <p>Monitoring</p> <ul style="list-style-type: none"> <li>• Review performance &amp; RM Framework</li> <li>• Transition of assets - update</li> </ul>
20 November 2020	<p>Strategic</p> <ul style="list-style-type: none"> <li>• Dynamic Hedging strategy proposal</li> <li>• Low risk corporate bond strategy – updated benchmark outcome</li> </ul> <p>Monitoring</p> <ul style="list-style-type: none"> <li>• Brunel presentation - overview of Listed Market Portfolios</li> <li>• Review performance &amp; RM Framework</li> <li>• Transition of assets - plan update</li> </ul>
26 February 2021	<p>Strategic</p> <ul style="list-style-type: none"> <li>• Initial report on Increasing SE/LC allocation within equity portfolio</li> <li>• Brunel presentation - Overview of Private Market Portfolios</li> <li>• Decision whether to top up allocation to Private Market portfolios in 2021 (current cycle)</li> <li>• Dynamic Hedging strategy counterparty proposal (if required)</li> </ul> <p>Monitoring</p> <ul style="list-style-type: none"> <li>• Review performance &amp; RM Framework</li> <li>• Transition of assets - plan update</li> </ul>

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## Appendix 5 - Committee training programme 2019-21

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board & legislative framework List of key strategy and regulatory documents	Committee	June 2020 Committee meeting Induction training
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers Induction training
3	Actuarial Valuations	Valuation monitoring 2019 valuation outcome & GAD valuation methodology, plus LGPS Cost Cap Mechanism,	Committee Workshop	Committee reports Workshop 2Q19 & Committee reports
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy (FSS) Covenant assessment process Admission and exit policies and funding basis used	Committee	Valuation & FSS workshop 2Q19 Committee reports
5	Investment strategy	Asset allocation & Investment Strategy Statement Investment strategies e.g. active vs. passive Investment management structure Monitoring managers, performance measurement, fees  Strategic Review Brunel: <ul style="list-style-type: none"> <li>Asset transition plan</li> <li>Monitoring of performance and service delivery</li> </ul>	Committee  Panel  Workshops  Committee	Quarterly monitoring report  Quarterly monitoring report  Workshops 4Q19, Committee 1Q20  Brunel transition plan monitoring (on-going) Brunel performance monitoring (on-going)

6	Managing liabilities	Monitoring and review of LDI framework Annual review of Risk Management Strategies  Review of Low Risk Investment Strategy	Investment Panel Investment Panel & Committee Investment Panel	Panel reports Annually  Part of Annual LDI monitoring
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

### Training Programme and the CIPFA Knowledge & Skills Framework (2019/20)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
<b>Fund Governance and Assurance</b>	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new member training);
<b>Manager selection and monitoring</b>	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting) Annual Risk Management Framework Report
<b>Asset Allocation</b>	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic Investment review
<b>Actuarial valuation and practices</b>	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee Covenant and Employer reports to Committee FSS & Triennial Valuation Workshops