Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee

Date: Friday, 26th March, 2021
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
Democratic Services
Lewis House, Manvers Street, Bath, BA1 1JG
Telephone: 01225 394458
Web-site - http://www.bathnes.gov.uk
E-mail: Democratic_Services@bathnes.gov.uk

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, 26th March, 2021

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 - 11TH DECEMBER 2020 (Pages 7 - 18)

8. DRAFT PENSION BOARD MINUTES: 25TH FEBRUARY 2021 (Pages 19 - 26)

9. 2021 - 24 SERVICE PLAN AND BUDGET (Pages 27 - 60)

   The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2021 to 31 March 2024.

10. TREASURY MANAGEMENT POLICY (Pages 61 - 70)

The Fund's Treasury Management policy was approved in June 2020. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy. The Committee are asked to approve the Treasury Management policy each year.

11. ANNUAL REVIEW OF RISK MANAGEMENT & REGISTER (Pages 71 - 82)

The purpose of this report is to provide the Committee with a review of the risk management process and risk register for the period March 2020 to March 2021.

12. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 83 - 104)

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

13. INVESTMENT PANEL ACTIVITY (Pages 105 - 120)

This report informs Committee of decisions made by the Panel and any recommendations.

14. INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 31 DECEMBER 2020) (Pages 121 - 172)

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.

15. UPDATE ON LEGISLATION (Pages 173 - 204)

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.

16. FUNDING & EMPLOYER UPDATE (Pages 205 - 214)

To provide the Committee with an up to date summary of the employer base of the Fund, changes and current issues.

17. PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT (Pages 215 - 238)

The purpose of this report is to inform the Pensions Committee of the performance for Fund Administration for the period up to 31st December 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23rd March 2020.

18. BUDGET & CASH FLOW MONITORING (Pages 239 - 248)

The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 11 months to 28 February 2021.

19. WORKPLANS (Pages 249 - 256)

Attached to this report is the 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.

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

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BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 11th December, 2020

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

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

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

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

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

32 WELCOME & INTRODUCTIONS

The Chair of the Committee welcomed everyone to the meeting.

33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

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

34 DECLARATIONS OF INTEREST

There were none.

35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

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

The minutes were approved as a correct record.

39 PENSION BOARD MINUTES: 13TH NOVEMBER 2020

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

40 FUNDING STRATEGY STATEMENT - POLICY UPDATES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee **RESOLVED** to;

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

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

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

41 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

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

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

To summarise 3Q20 RAG reporting:

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

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

(iii) There are no RED rated strategic risks.

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

The Committee **RESOLVED** to:

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

42 INVESTMENT PANEL ACTIVITY

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

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

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

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

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

The Committee **RESOLVED** to:

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

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

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

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

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

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

Fund Performance

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

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

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

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

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

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

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

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

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

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

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

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

44 UPDATE ON LEGISLATION

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

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

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

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

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

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

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

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

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

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

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

Councillor Manda Rigby seconded the proposal.

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

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

The Committee **RESOLVED** to;

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

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

45 PENSION FUND ADMINISTRATION

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

APF Performance

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

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

Pension Savings Statements

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

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

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

Risk Register

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Pensions Manager replied that yes this could be done.

The Committee **RESOLVED** to:

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

ii) Note the updated Risk Register and actions taken.

46 BUDGET & CASHFLOW MONITORING

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

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

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

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

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

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

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

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

The Committee **RESOLVED** to:

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

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

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

47 WORK PLANS

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

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

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

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

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

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

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

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

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

The Governance and Risk Advisor agreed.

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

The meeting ended at 3.49 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Thursday, 25th February, 2021

Present:- Nick Weaver (Chair), Pete Sloman (Employer Representative), Helen Ball (Member Representative), Steve Harman (Employer Representative), David Yorath (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), Kathryn Shore (Technical and Compliance Advisor), Anna Capp (Member Services Manager) and Claire Newbery (Employer Services Manager)

14 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

15 APOLOGIES FOR ABSENCE

Mark King (Member Representative) had sent his apologies to the Board.

16 DECLARATIONS OF INTEREST

There were none.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

18 ITEMS FROM THE PUBLIC

There were none.

19 ITEMS FROM MEMBERS

There were none.

20 MINUTES OF PREVIOUS MEETING - 13TH NOVEMBER 2020

The Board approved the minutes of the meeting held on 13th November 2020 as a correct record.

21 LGPS REGULATORY UPDATE

The Technical & Compliance Advisor introduced this report to the Board. Referring to the HMT Public Sector Exit Payments Cap she explained that on February 12th, the Government issued directions which disapply parts of the regulation with immediate effect.

She said the exit cap therefore doesn't apply to anyone leaving on or after 12th February, and as such a member who is dismissed on grounds of redundancy or business efficiency, who is over the age of 55, can once again receive a fully unreduced pension regardless of the cost to their employer. The guidance on the directions further set out HM Treasury's expectation that employers should pay any additional sums that would have been paid had the cap not applied for employees who left between 4 November when the regulations came into force and 12th February.

She stated that following this decision the Fund has no cases to respond to and therefore no rectification exercise to complete. She added that it was possible that a revised cap might be proposed by the end of the year and if so a further consultation exercise on any changes required to the LGPS regulations, as a result, would be carried out.

She informed the Board that the Phase III report of the Good Governance in the LGPS had now been published on the Scheme Advisory Boards website along with the Board's action plan which has been submitted to the Local Government Minister for consideration.

The Head of Business Finance & Pensions asked if the Judicial Reviews relating to the Restriction of Public Sector Exit Payment Regulations 2020 would now be suspended.

The Technical & Compliance Advisor replied that as far as she was aware they were still going ahead.

Steve Harman asked if there was any indication of what changes, if any were being considered with regard to the Exit Payments Cap.

The Technical & Compliance Advisor replied that she was not aware at this stage of the likely proposals and said that it might depend on the outcome of the Judicial Reviews.

The Chair asked if resetting the system had been difficult following the decision in terms of calculation of the strain charge.

The Technical & Compliance Advisor replied that when the process was setup for dealing with the £95k cap additional processes were put in place, including additional information sheets for members in advance of any further possible changes to the LGPS.

She added that the Actuary has advised to carry on with strain costs with what has already been implemented and that they may carry out a review at some point in the future.
The Board **RESOLVED** to note the current position regarding the developments that could affect the administration of the fund.

22 FUND & EMPLOYER PERFORMANCE / ADMINISTRATION

The Pensions Manager introduced this report to the Board. He explained that the report seeks to inform them of the performance for Fund Administration for the period up to 31st December 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23rd March 2020.

He said that the prioritisation of critical administration processes as advised by the TPR, focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases remains the focus for the team.

He stated that KPI performance is monitored and reported to the Pensions Manager for review on a biweekly basis. He added that some processes were slightly slower where limited access to the office remains in place.

Helen Ball asked if members were frustrated by any of the delays.

The Member Services Manager replied that some niggles have been raised on timings, but there had not been an increase in complaints, and she felt that most members were understanding of the situation faced by the team.

The Pensions Manager informed the Board that with regard to Employer Performance they were only currently reporting on retirement cases and planned to expand the report in time for the next meeting.

The Employer Services Manager commented that Bristol City Council had changed their payroll provider which has caused a delay in submitting monthly data via IConnect. She added that some errors had been identified and worked through to get them corrected which has led to them to being 2-3 months behind. She said that they were up to date in terms of all other monthly data providers.

The Head of Business Finance & Pensions asked if within a future report a trend analysis of cases over the past five years can be included to provide performance evidence to the Board.

The Pensions Manager replied that this should be possible and that he would look to provide this in the next report to the Board.

He explained that 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. He added that the Fund has taken mitigating action in each case to ensure employers are aware of their responsibilities going forward.

He added that on a monthly basis they engage with the top 34 employers, which accounts for around 80% of the Fund membership to ensure there are no issues.

He stated that the administration recruitment project is still ongoing and currently in Phase 2 of 3. He said that the induction and training of newly appointed members of staff via the new training officer program is in place and working well and that around 8-9 vacancies remain.

He added that a project lead has now been appointed for the McCloud Data Collection project, this was an internal appointment and backfilling is currently underway.

The Chair asked how the morale of the team is in general.

The Pensions Manager replied that an in-house survey had recently been completed and that he felt that most staff were now used to be working at home. He added that in the future a balance would need to be found to support staff working arrangements. He said that he believed the stress levels for team managers had increased.

The Head of Business Finance & Pensions agreed that future planning was required and said that the work of the managers over the past year can't be underestimated.

The Chair asked if the appropriate equipment and technical support has been provided to staff.

The Pensions Manager replied that hardware and support has been made available to staff and continues to do so.

The Chair asked what could be done to improve staff resourcing.

The Pensions Manager replied that to recruit and retain has been a problem in the past and that they can look at how posts are advertised, whether the post on offer is attractive enough and revise the job description.

The Employer Services Manager said that the salary offered can sometimes be an issue and that adverts are normally only placed on the B&NES website, but they have recently applied to advertise some posts externally.

The Member Services Manager added that applications for the posts are received, but there is a set criteria on experience and financial background required.

Steve Harman asked if there was any opportunity for apprenticeships to take on these roles as a career path.

The Head of Business Finance & Pensions replied that they have taken on apprenticeships before with mixed success and proposed whether a high-level trainee position might be a better option, along the lines of a graduate apprenticeship.

Helen Ball commented that she had previously managed a graduate trainee system across different areas of a local Council where many went on to have successful careers.

The Head of Business Finance & Pensions said that the local universities have been approached on these roles. He added that London is still seen as a popular destination, although questioned whether that would now change in the future.

The Board **RESOLVED** to note the report, including Fund and Employer performance for the three months to 31st December 2020.

23 CIPFA BENCHMARKING

The Chair announced that this report would need to be deferred to a future meeting of the Board.

24 BRUNEL UPDATE

The Head of Business Finance & Pensions addressed the Board. He informed them that as of 31st December £3.3bn, representing 70%, had been transitioned to Brunel from within the Fund and that this exercise was due to be completed in May 2021.

He stated that there are a number of legacy assets to run down, including the unwinding of the Property and Hedge Fund Portfolios that we do not want to sell off cheaply.

He explained that the Client Group were working on performance reports and that these would continue to be developed over the next 12 months.

He said that officers were liaising with Mercer and Brunel over the future presentation of the strategic monitoring reports.

He stated that there was a new structure to the Brunel Board that had been agreed by the Brunel Oversight Board and Shareholders to increase the number of Non-Executive Directors to five, giving it a total composition of nine and therefore the balance of power sits with the Non-Executives in line with best practice.

He said that a new Shareholder Non-Executive Member had been appointed, a new Investment Officer (David Vickers) recruited and a new Chair of the Oversight Board (Robert Gould) was now in place.

He commented that the Oversight Board has been working on the Governance Review and that this remains ongoing and would continue to do so for the next few months.

He stated that a budget of £10.5m had been agreed with the Brunel Board which includes some room for growth in resources in terms of private markets and risk management.

He said that post transition a focus will remain on Climate Change and how portfolios can achieve the 2 degree threshold, potentially 1.5 degree threshold in temperature rises and reduced carbon footprint.

The Chair asked if any investment fee cost savings could be identified as part of this work.

The Head of Business Finance & Pensions replied that overall there was, but on an individual Fund basis it might not appear that there are fee savings. He said that following transition he would be preparing a report to submit to the Investment Panel which summarises the overall position. He added that fund growth has occurred alongside portfolio changes.

The Board **RESOLVED** to note the update that had been provided.

25 RISK REGISTER UPDATE

The Pensions Manager introduced the report to the Board. He explained that the Risk Register had only been reviewed within the last week so the document published in the agenda pack was the same as in November 2020. He said that following the recent announcement the entry relating to the exit payment cap would likely be moved to a lower risk category.

The Chair commented that employers were pivotal to the Fund receiving the correct information and asked if they were taking enough responsibility for this.

The Employer Services Manager replied that in the main they are engaged and provide data on time. She added that the last year end in particular was really good.

Pete Sloman asked which of the eight red risks were of most concern.

The Pensions Manager replied that there remains a need to manage business as usual. He added that the Exit Cap work was a huge drain on resources and that the forthcoming McCloud remedy will be one of the biggest challenges faced by the administration.

The Head of Business Finance & Pensions added that in his opinion politics / policy have the potential to have a big impact on the Fund.

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

26 PENSION BOARD WORKPLAN & TRAINING PLAN

The Service Director, One West introduced this report to the Board. He explained that it was a standard agenda item to give them an outline plan for the year ahead. He said that Board members could request either formal or informal training and then following any such event their attendance should be updated on their individual training logs.

He added that he was aware that members had recently attended some seminars.

Helen Ball commented that she had recently attended a CIPFA Update Session. She asked if the members of the Avon Pension Fund Committee and the Pension Board should attend a training session together at least once a year.

The Pensions Manager replied that previous events such as Valuation Training have been held jointly and they could look to hold similar events or joint workshops in the future.

The Board **RESOLVED** to note the report and recommends high level training needs through 2021.

The meeting ended at 3.15 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	26 March 2021	
TITLE:	2021 - 24 SERVICE PLAN AND BUDGET	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Annex 1: 2021-24 Service Plan and Budget Report
Appendix 1 – Scope of Avon Pension Fund
Appendix 1a – Admin & Investment Resource
Appendix 2a – Service Plan Monitoring of Objectives 2021
Appendix 2b – Service Plan Completed 2020
Appendix 2c – Service Plan Projects on hold 2021
Appendix 3 – Digital Transformation Roadmap
Appendix 4 – High Level Structure Chart
Appendix 5 – Budget & Cash Flow Forecast

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2021 to 31 March 2024.

1.2 The Service Plan (Annex 1) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

2.1 That the Committee approves the 3 Year Service Plan and Budget for 2021-24 for the Avon Pension Fund.

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.

3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2021-24

4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three-year budget supports the objectives and actions arising from the plan including work relating to the investment strategy, risk management and compliance and improvements in the administration of the Fund.

4.2 The main focus of this plan is as follows:

(i) Develop and implement fully digitalised services to members and employers to increase operational efficiency and capacity; this will include gap analysis and specification of digital requirements across all stakeholders

(ii) Embed the training and development programme to support digitalisation

(iii) Monitor transition of final assets to Brunel and ongoing performance of portfolios and Brunel ensuring Brunel is delivering the Fund's strategic objectives

(iv) To meet our climate objectives, review the equity allocation with objective to having all equity assets managed in sustainable or Paris Aligned investment strategies

(v) In light of the interim valuation, consider whether the current investment strategy meets the funding objectives or whether the level of risk embedded in the strategy is too low

(vi) Implement policies that enable greater flexibility in managing employer risk and scheme exits

(vii) Develop further the stakeholder communications strategy for investment strategy and climate change

(viii) Plan for the expected burden on Fund administration resulting from the McCloud remedy (including potential Fire scheme related Immediate Detriment cases) and GMP rectification exercises.

(ix) Undertake any necessary work to ensure the objectives of the Good Governance Report are met once scheme regulations and statutory guidance are in place.

4.3 Full details of the 2021-24 Service Plan are included in the Annex 1. Appendix 2 of the Service Plan shows the new medium-term targets for 2021-24 together with completed targets against the 2020/21 plan and planned projects temporarily paused.

5 BUDGET FOR 2021-24

5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2021 are included as **APPENDIX 5** to the Service Plan.

5.2 The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are highly dependent upon investment performance. They also include governance and compliance expenses which are a consequence of the Fund's policy response to regulations, employer activity and investment strategy. The budget also includes the estimated costs of the pension board. The LGPS regulations require the costs of local pension boards to be met by the local fund.

5.3 The budget approved for Administration in 2020/21 was £3.7m. The proposed budget for 2021/2022 increases to £4.0m. The increase will include the appointment of both a Transformation Manager and Project implementation officer and include the strengthening of the existing management team and the temporary additional resource to support administration requirements as a result of the expected McCloud remedy. The previously planned IT system review budget has been removed pending the planned revision to the Administration Strategy and this will be brought to Committee for consideration later in the year.

5.4 Governance and compliance costs are set to rise mainly driven by increasing actuarial costs due to employer activity, changes to regulations and new regulations and preparation work for the next valuation cycle including an interim valuation.

5.5 Investment management fees (including those for Brunel) are expected to be slightly lower due to reduced fee rates on assets that have transitioned to Brunel. Performance fees (on legacy mandates) are forecast to be lower this year as a result of the pandemic affecting the values of some real assets. The management costs for Brunel (for operations and service delivery) are shown separately. Transition costs are not included as these are taken off the value of the assets at point of transfer.

5.6 Cash flow management is crucial as the Fund becomes less cashflow positive (which is exacerbated by prepayments of employer contributions) and investments in private markets increases. The notice period for private market drawdowns are relatively short, thus the investment strategy must ensure there is adequate cash or near cash on a continuous basis. Monitoring of the 3-year cashflow forecast is part of the process.

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 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

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 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.

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

Contact persons	**Budget** – Dave Richards, Finance & Systems Manager (Pensions) (01225 395259) **Service Plan --** Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Group Manager Funding, Investments & Risk (01225 395306)
Background papers	Various Accounting Records

Annex 1

THE AVON PENSION FUND

SERVICE PLAN

2021 - 2024

PREPARED BY:

TONY BARTLETT, LIZ WOODYARD, GEOFF CLEAK and DAVE RICHARDS

MARCH 2021

CONTENTS OF SERVICE PLAN

SECTIONS

APPENDICES

AVON PENSION FUND SERVICE PLAN 2021-24

1 BACKGROUND

This service plan is written against the backdrop of the continuing Coronavirus pandemic and the ongoing battle to prevent its spread across nations and across the globe. Whilst the emergence of several vaccines brings refreshed optimism that the fight against the virus will eventually be won, this will weigh heavily against the human and economic cost that nations have been left to deal with. How governments respond in the bid to stimulate flagging economies amidst calls for greater ethical and social balance and political commitment for a greener future, will have a significant impact on the financial position of the Fund, whilst it is already recognised that “normality” when it returns, will be different and effect ongoing operations and services.

Whilst the Fund has managed to maintain services, enabling almost all activity to be undertaken remotely and online during the past year, several developments have struggled to gain traction, a product of the operational environment. The service has adopted a “make do” or “needs must” approach to both communications and operations which now requires a more robust solution, to enable sustained digital operation. The existing Administration Strategy reflects an evolutionary approach to digital enablement with a number of long term projects ongoing; the dramatic change in circumstances is now challenging this approach and rather demanding a revolutionary step change in digital services and functionality; whilst it is expected that the market offer will continue to be developed in this area, the specialist nature of pensions means there is still likely to be a gap between requirements and available products which could be expensive to bridge.

Running alongside the growing digital challenge is an equally demanding management challenge. “Wellbeing” currently takes top billing on the agenda but the supporting cast of training and development, performance management, communications, security, relationship management and cultural development are becoming co-starring roles and need considerable attention as the service moves into the brave new world. How the service intends to respond to these challenges will be the subject of a revised Administration Strategy in the second half of the year, but there will be a number of key investments to kick start some of this work as Strategy development takes place.

The impact on financial markets of the Covid outbreak in March 2020 was staggering, but equally remarkable was the response of international governments to prop up their economies, creating large amounts of public debt in the meantime. For the Fund, it caused a pause and reappraisal of some of the investment strategy decisions to ensure that strategic direction was still appropriate. Since that time, the Fund has strengthened its equity risk management approach; but the economic outlook remains uncertain and a lot will depend on how governments seek to rebalance their debt positions and for the UK the impact this has on employers will have a direct impact on the Funding Strategy.

Having moved from one period of austerity with the likelihood of facing another, the only strategic dependable now seems to be ongoing uncertainty. The challenge to the public sector purse, uncertain economic outlook and the need to maintain an affordable pension scheme for employers now raises a question for the Fund which may not be unexpected –

"do we need to take more risk?" Appetite for risk is a key component of the Fund's investment strategy and it has endeavoured to minimise risk in an effort to stabilise employer contributions. This strategy has been successful, stabilising contributions and closing the funding gap over successive valuations, but with the next valuation only 12 months away, the Fund's appetite for risk will be seriously challenged unless government intervention provides a stay of execution.

The Covid pandemic has increased risk across all the Fund's strategies and the focus of 2021 will therefore be to work towards mitigating measures. In the case of the administration a more fundamental review of Strategy is required focusing on technology, staff and operational development.

Administration

The most obvious outcome of moving to a solo homeworking environment is that all communication, engagement and operation now has to be timetabled and planned. With limited visibility there is increased pressure on the management team to ensure all operations are effectively maintained. Whilst longer term it is expected that digital tools will develop to support this, at present there is a reliance on increased management effort to sustain this position. As stated earlier a number of developments have been paused as a result but the need to now fully embrace digital operational capability provides a further logistical and management resource drain. Ensuring there remains sufficient management focus in key areas is now a major challenge for the administration and it is recommended that the management team is strengthened in quite specific areas to accommodate this. In addition, the creation of a core projects unit which could be flexed as major projects such as McCloud emerge, will mitigate the current risk of continually diluting operational resource.

The new operating environment also requires a new infrastructure to support it and whilst the service has adapted, the change is far from complete. The establishment of a Transformation function would give the issue real focus and impetus and incorporate the recently created training function, communications and importantly lead on all digital transformation. Whilst this function is being established, a projects officer will be appointed to kick start some of this work particularly digital service specification, digital office working including staff engagement and governance arrangements, more detail of the planned transformation workstreams and timetable being contained in Appendix 3. A high-level admin structure chart to support the transformation process and maintain business operational needs is shown as Appendix 4. It is anticipated that the net cost of this structural change will be £116k with some of the costs being met by existing budgets.

Investments & Funding

The investment team has been strengthened in the past year and it is not proposed to make any further changes albeit the situation will need to be kept under review. The Brunel transition work should complete by the end of 2021 leaving the Fund with some legacy assets to manage down over time. The focus will turn to Paris aligned portfolios with significant regulation and policy development expected in this area to be navigated by the Fund and the Brunel Partnership. In addition, the Fund will increase its transparency around its strategy by reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for example. The economic impact of the pandemic will no doubt be apparent for some time and the interim valuation in 2021 will provide a benchmark to consider any further changes to the investment strategy; in particular the fund will need to consider the level of investment risk necessary to maintain funding objectives.

The employer portfolio continues to evolve and there is a need to increase covenant assessment work to reflect the increase in employer risk. In addition, scheme employers are more actively monitoring and managing their pension liabilities which in turn leads to greater engagement and workload for the team. Therefore, it is prudent to review the current resources in the actuarial team, in particular to ensure there is adequate resource for policy development and employer engagement.

Addressing the Climate Emergency

The Fund's strategy to reduce its carbon emissions and exposure encompasses all aspects of its activities. As part of B&NES Council it is committed to achieving the Council's goal of enabling the Bath and North East Somerset area to be carbon neutral by 2030. In respect of its operations it will achieve this by fully digitalising its service delivery to members and employers, accepting that it will have to provide non digitalised service to those that are not electronically enabled in the meantime. In addition, use of technology to enable remote working and online learning and seminars will reduce the carbon emissions from commuting to work and travel to conferences and seminars.

Alongside side the operational strategy the investments strategy embeds responsible investing throughout the investment process starting with setting the investment objectives. A set of climate change objectives have been agreed and the implementation of the investment strategy will be consistent with achieving these goals. These goals will be kept under review as the development of UK and international government policies, advances in technology and creation of investment solutions should mean the milestones can be brought forward over the next 5-10 years.

As a responsible investor the Fund will improve and increase its disclosure on its climate related and broader stewardship activities by reporting in line with the Task Force on Climate-Related Financial Disclosures and the Financial Reporting Council's Stewardship Code in 2021/22. In addition, we will be increasing our interaction with members and employers about our activities and how, as an investor, we are promoting change and demonstrating leadership in the field of responsible investment.

Governance

The Scheme Advisory Board (SAB) launched the Good Governance Review back in 2018 and appointed Hymans Robertson to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements. The aim of the project is to further improve the high standards of governance and administration of the scheme on a consistent and measured basis across all 87 LGPS Funds, that will better match the standards expected by the Pensions Regulator.

On 15 February 2021, SAB published Good Governance: Phase 3 Report which was produced by the Hymans Robertson project team. The Phase 3 report provides further details on some of the recommendations which will now be submitted to the Local Government minister for consideration. A timeline for implementation is then expected.

The Fund previously measured itself against the recommendations and has an action plan for implementation of the additional measures once all the details are confirmed. The additional requirements include:

- Introduction of an LGPS senior officer responsible for the delivery of LGPS activity for a fund.
- Enhanced governance compliance statement
- Conflicts of interest policy specific to the LGPS.
- Representation: policy on how scheme members and non-administering authority employers are represented on its committees.
- Skills and training: pension committee members and section 151 officers, to have the appropriate level of knowledge and understanding to carry out their duties efficiently.
- Service delivery: compulsory administration strategy.
- KPIs: defined service standards and governance in place to monitor those standards.
- Business planning process: resource and budget allocated to administer the LGPS each year.
- Biennial independent governance review

Work will be planned in to meet the requirements once the scheme regulations and statutory guidance are in place.

Workload

For a number of years the Fund has increased resources to meet the ongoing challenge of employer and regulatory growth and for the time being there is no sign of this abating. The operating circumstances have been challenging over the past twelve months and with the prospect of this continuing, productivity and particularly the management of new developments and projects will remain challenged in respect of delivery times. The service plan priorities have been reviewed and realigned with the current operating constraints in mind to provide a more realistic delivery timescale. The key to success now very much hinges on the necessary developments in technology to enable efficient remote working but with sufficient opportunities to ensure collaborative working can still take place; essential for project delivery strategy and policy development, cultural and social cohesion. The Administration Strategy is under review to ensure that all the issues experienced by the service through this difficult period can be recognised and as far as possible addressed as we continue to operate in an arms-length fashion. The admin strategy will be refocused on areas of communications, training and transformation but the size of the challenge ahead should not be underestimated.

Budget

The budget has been adjusted to reflect a revised structure and the costs of kick starting some of the necessary work in advance of a revised Administration Strategy. At this point the budget is incomplete and will require a further discussion when the Administration Strategy comes back to the Committee in the autumn/winter; by then there should be a clearer indication of digital investment required and over what period in order to make the necessary and/or available changes if this is a direction the committee feel able to support, at which point the net impact on benchmark costs should also be clearer.

2 KEY OBJECTIVES – 2021/22 to 2023/24

Funding Strategy:

1. Undertake an interim valuation during 2021 to identify the issues that may materially affect the 2022 valuation (which will set employer contribution rates with effect from April 2023).
2. Finalise and then implement the Fund's policies within the Funding Strategy Statement that will enable greater flexibility in managing employer risk and scheme exits.
3. Ongoing covenant assessment for incorporating into the Funding Strategy and funding plans.
4. Explore further options for bespoke portfolios to manage the funding and liability position of specific employer risk groups.
5. Ongoing management of smaller employers to ensure pension costs remain affordable for the employer and financially sustainable for the Fund.

Investment Strategy:

6. Monitor the transition of assets to the Brunel Portfolios (expected to complete by end 2021) and performance of Brunel and their portfolios, ensuring Brunel are delivering the Fund's strategic objectives.
7. To meet our climate objectives, review the equity portfolio with the objective of having all the equity assets managed in sustainable or Paris aligned (with low carbon transition) investment strategies.
8. In light of the interim valuation and expectations of future returns, consider whether the current investment strategy meets the funding objectives or whether the level of risk embedded in the strategy is too low.
9. Monitor and develop the Risk Management Framework as required as a mechanism for managing liability risk through the investment portfolio and mitigating investment risk.
10. Support initiatives and undertake activity to demonstrate the Fund's commitment to meeting its climate emergency targets such as reporting in line with the TCFD recommendations in 2021, as a signatory to IIGCC initiatives to influence government policy and regulatory change.
11. Increase communications with our broad array of stakeholders about the investment strategy with a focus on how the strategy is mitigating the financial risk of climate change.
12. Realign the investment advice required post transition of assets to Brunel.
13. Maintain the Investment Strategy Statement reflecting strategy developments and changes due to Brunel operations.

Administration Strategy:

14. To continue the move towards digital delivery of Scheme communications to members.
15. To complete the rollout of I-Connect and the receipt of monthly member data returns.
16. To introduce a training & development programme covering operational and digital transformation requirements.

17. To complete the final phase of the GMP data reconciliation exercise as required by HMRC to ensure the fund is not at risk of erroneous pension liability.
18. To complete the member address rectification project to identify missing data and implement actions to resolve outcomes.
19. To monitor outcomes of McCloud judgement and implement actions to manage remedy including actions to support Fire Schemes Immediate Detriment cases.
20. Undertake gap analysis and specification for digital requirements across all stakeholders.
21. Develop revised Admin Strategy proposals to include digital transformation and to take to Pensions Committee.

Governance:

22. Keep governance arrangements under review to ensure effective monitoring of Brunel and the transition of the assets.
23. Implementation of the Good Governance Review (SAB) requirements.
24. To ensure the Committee and the Pensions Board is fully trained and briefed on current strategies and operations and in position to scrutinise and make decisions effectively.
25. Retender advisory contracts to align contracts with Fund objectives.

A report on objectives, targets & progress towards objectives and those rebased and temporarily put on hold is given in Appendix 2.

3 RESOURCE IMPLICATIONS

Despite assets transferring to Brunel, significant resources are still required to manage and develop the relationship with Brunel and the client side of the pool as well as delivering the investment strategy including Responsible Investing and Risk Management. In addition, internal specialist capability ensures the Fund strategy evolves efficiently to meet the Fund's objectives, there is proper control of implementation, that members are trained and supported, and there is adequate internal challenge of expert advice.

Capacity within the Investments Team has now improved with the appointment of a Senior Investments Officer (SIO) in early 2021, with a specific focus on ESG and RI. A second SIO post remains vacant and is already provided for in the budget; further consideration will be given to filling this position once the team has bedded down and all legacy assets have transferred to Brunel (except those that cannot transfer and will be wound down by the Fund). Strategic projects such as the review of the equity assets will be delivered by the Fund's investment advisors.

To address the changing work of the actuarial team, the team's resources will be reviewed during the year to ensure there is adequate support for the Funding and Valuation Manager in developing and implementing policies and funding plans.

In respect of administration at the start of the pandemic a high number of posts remained unfilled. A phased recruitment programme has been in place over the past seven months to complete the establishment albeit with some slippage due to COVID and remote working. Further recruitment to better structure the management team and support transformational needs of the service will be the introduced as part of the 2021/22 budget and operationally the administration resources will be considered during the year as part of the Administration

Strategy review. Appendix 1a details the increase in establishment resource since 2014 highlighting the continuing void between agreed establishment and actual posts filled; set against a background of regulatory change and increased governance and compliance.

The 2021/22 budget allows for additional temporary resource to support the expected workload to manage the McCloud remedy, with the use of external specialist support as part of the ongoing solution to manage elements of specific project work.

4 BUDGET

This Service Plan period includes the costs of managing investment assets through Brunel; savings in investment management fees are materialising as the transition of assets progresses. The Fund is expected to realise net (of transition costs) cumulative savings by 2024-25, with the business case forecasting cumulative savings of £73m by 2036.

The Fund budget (excluding investment fees) proposed for 2021/22 is £ 5.35m.

In the areas of Governance and Compliance and Investment Management, where expenditure cannot be directly controlled, the budget reflects the expected volumes of work and fees.

The budget includes the costs of supporting the Fund’s RI strategy to manage the impact of climate change on the asset portfolio. The total budget committed to RI including staff costs, affiliations, advice and communications is around £0.13m p.a.

Within the directly controlled budget for Administration there is a proposed increase in net expenditure over the 2020/21 budget of £0.31m. This includes additional resource to strengthen the management team and to also implement and manage the transformation program.

It also includes continued additional temporary resources to meet expected increased workload resulting from the McCloud remedy. £0.12m is provided in the budget for extra resources and advice to implement the McCloud remedy with provision to increase this up to £0.3m in the 2022/23 budget subject to requirements once legislation has been made. Previous budget provision for consultancy on IT systems has been removed pending the revised admin strategy and digital development requirements. The provision of £20,000 made in the previous budget to provide equipment to support flexible working during the pandemic will continue into 2021/22 and an additional £10,000 has been made to provide office meeting space. The budget also includes the cost of one-off projects to undertake the final phase of the address tracing project and completion of the GMP rectification exercise.

Investment Management fees:

The annual management fees of £18.4m are lower than in last year’s budget for 2021/22 of £19.8m despite an increase in asset values between the data points used. During the year recurring fee reductions were achieved on assets that transitioned to Brunel portfolios. Significant savings of c.£1.6m p.a. were achieved on the Brunel Diversified Returns Funds (DRF) portfolio. Lower fees for the Global Sustainable Equity portfolio save c.£0.2m p.a. and transferring management of the UK Property portfolio to Brunel in 1Q21 will save c.£0.4 p.a. when the transition completes during 2021/22. To date the cumulative investment fee savings from transitions are c. £3.4m p.a. (when comparing to the fees paid prior to transition).

However, strategic allocation changes affect the actual savings achieved. For example, switches from lower to higher cost portfolios (e.g. switching from Brunel's UK and Global High Alpha Equity portfolios to the Global Sustainable Equity portfolio) and from lower cost listed asset portfolios to higher cost private market assets puts upward pressure on fees. Compared to previous years, very low performance fees are anticipated to be incurred in 2021/22; this reflects the fall in some property and infrastructure values due to the pandemic which are not expected to recover to pre-pandemic levels this year; therefore performance fees will not accrue until pre-pandemic values are exceeded.

As at 31/12/20, Brunel manage £3.4 billion or 66% of the Fund's assets as follows:

Brunel portfolio	Value at 31/12/20	Date of transition
Passive Low Carbon Equities	£666m	July 2018
UK Equities	£0m	Nov 2018
Emerging Market Equities	£281m	Oct 2019
Global High Alpha Equities	£391m	Nov 2019
Risk Management Strategies	£878m	Oct 2019
Diversified Return Funds	£508m	July 2020
Sustainable Equities	£539m	Sept 2020
Private Market Assets	£182m	n/a

The fees do not include the cost of transitions which is deducted from the asset values. In addition, the budget does not include planned transitions during 2021/22 but assumes legacy mandates are retained.

The actual fees paid in 2021/22 will depend on the change in asset values over the year and the performance of the assets subject to the performance fees (performance fees accrue within each year but are only payable when the underlying assets are realised).

Brunel management costs:

The shareholders are in the process of approving the 3-year budget and Business Plan for Brunel for 2021/22 to 2023/24. The budget ensures there are adequate resources to

(i) deliver the transition plan within an agreed timeline in order that clients can implement their investment strategy efficiently;
(ii) support the clients' RI objectives;
(iii) ensure resilience and capability in the private markets team as the assets under its management increase and
(iv) develop the reporting to clients as the business moves from the transition phase to business as usual.

The overall costs of Brunel of £10.9m for 2021/22 is c.3% increase year on year. As more assets transition from clients to Brunel, more of the costs are applied to the portfolios on an AUM basis (rather than on an equal 1/10th basis). Therefore, Avon's share is slightly more than 10% at £1.28m p.a.

Governance Costs:

Ongoing governance costs, primarily actuarial and investment advice are forecast to be higher than last year. The actuarial workload has increased significantly over the last 12 months (and the 2020/21 costs are forecast to be over budget) as the team deals with more employer specific issues and changes in regulations leads to more activity (for example the introduction of exit credits). The main pressure on the 2021/22 budget is the extra activity as a result of the new regulations that permit more flexible funding plans and prep work for the 2022 valuation including an interim valuation exercise. It also includes a contingency for advice to implement the McCloud remedy, GMP rectification and elements of the pre 2022 valuation work which may fall into the next fiscal year.

There is an increase in the budget for Investment Advice, primarily due to the cost of implementing the Dynamic Equity Protection Strategy. This is a one-off cost and the ongoing monitoring and related costs of the strategy will be lower once the new structure is in place.

Salaries:

The increase in admin team salaries has been explained earlier. There is slight upward pressure on the salaries in the Finance & Investments Team where following unsuccessful recruitment in 2019/20 posts were regraded, enabling vacant posts to be filled last year.

Pensions Board:

The Pension Fund is required to meet the costs of the Pensions Board. The estimated cost of the Board is included in the Fund’s the three-year budget.

5 CASH FLOW

As the Fund’s profile matures, monitoring future cash flow trends increases in importance. The Fund is transitioning 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. The cash flow is currently monitored on a monthly basis and reported quarterly to Committee. As a result of the advance future service rate payments, due to be made by the major employers in April 2021, the Fund will have larger cash in-flows at the start of the financial year. The consequent absence of these in the following months will result in greater negative monthly cash flows. The negative cash flows are managed by using income from the investment portfolio and divestments as required. Divestments are delegated to Officers as part of their operational duties. Consideration is given to the actual allocation against the strategic allocation as well as the view of investment markets.

Full details of the budget between 2021-22 and 2023-24 together with a cash flow forecast for the payment of benefits and the receipt of contributions are given in **Appendix 5.**

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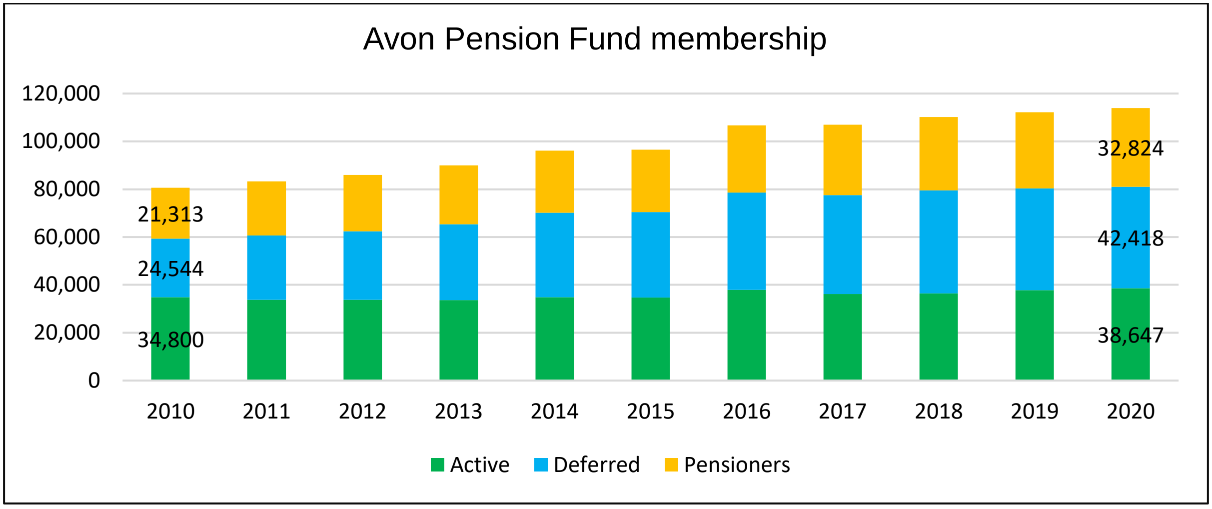
Scope of Avon Pension Fund



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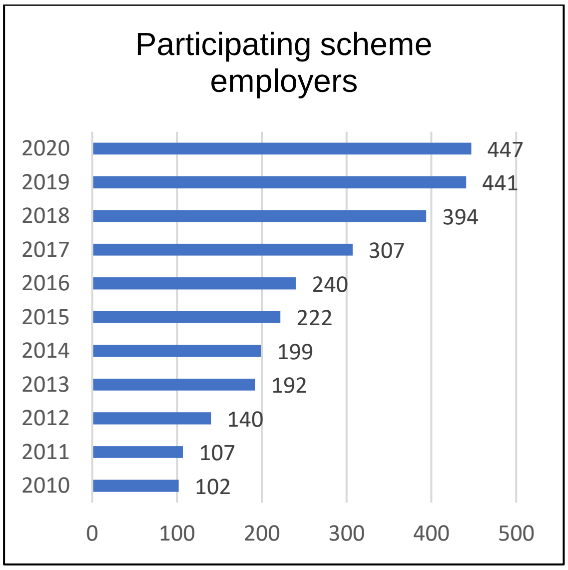

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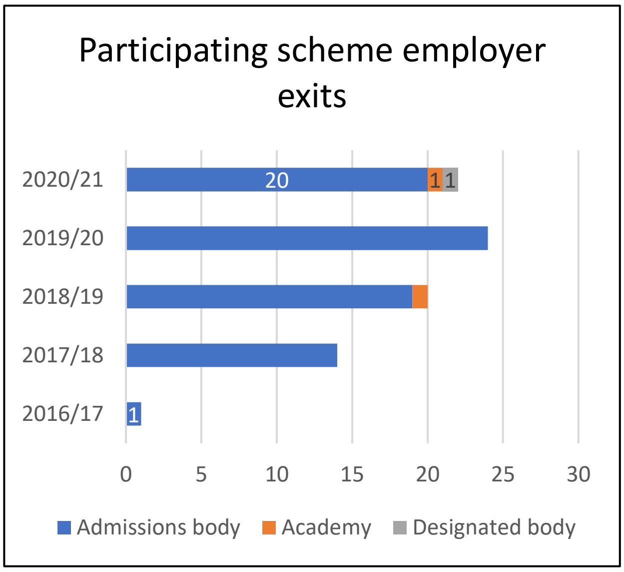

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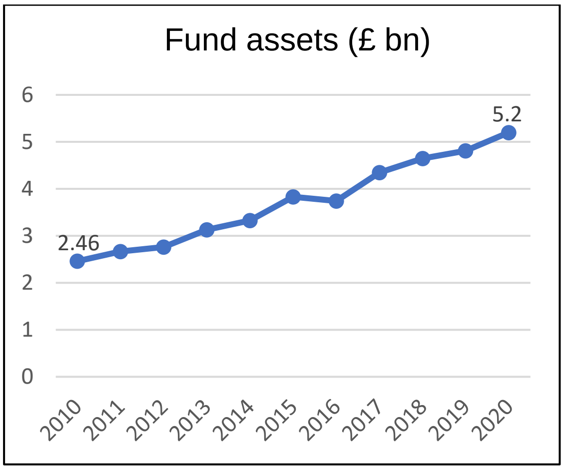

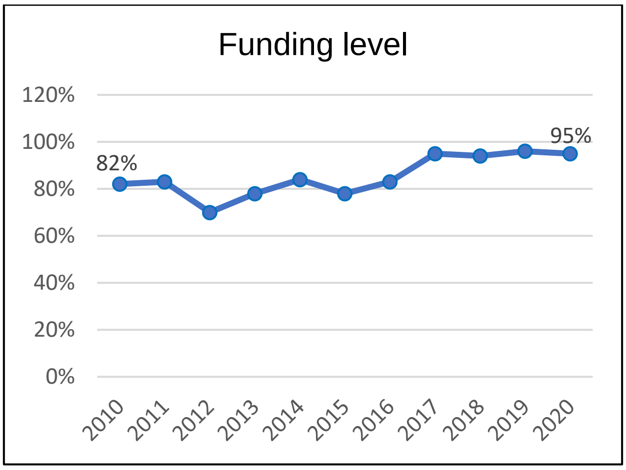

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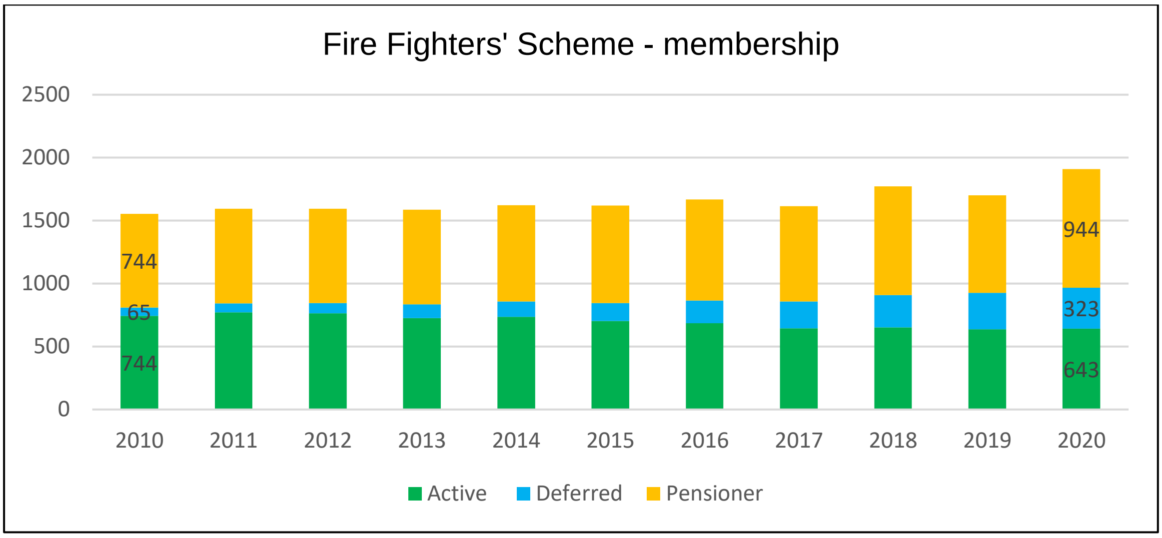

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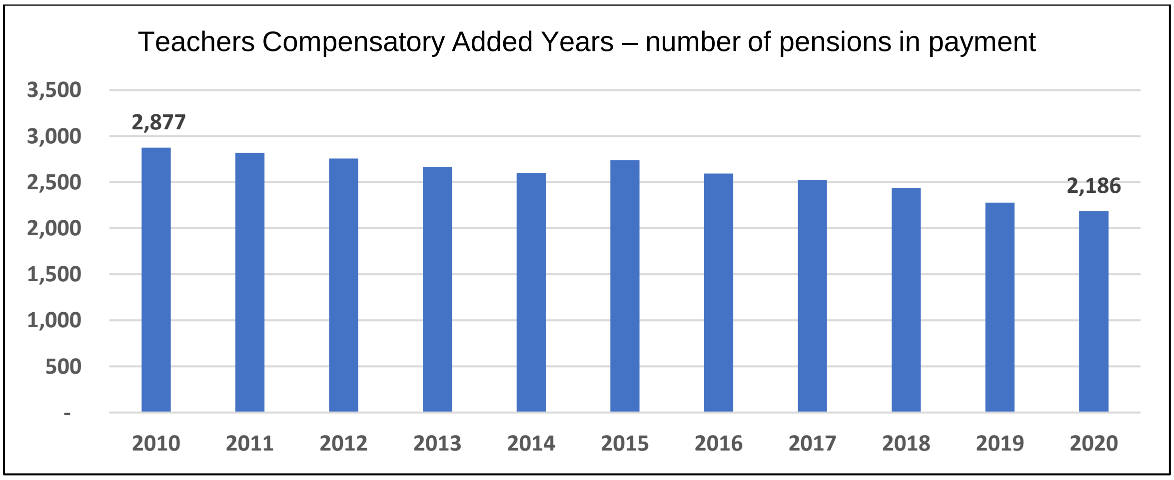

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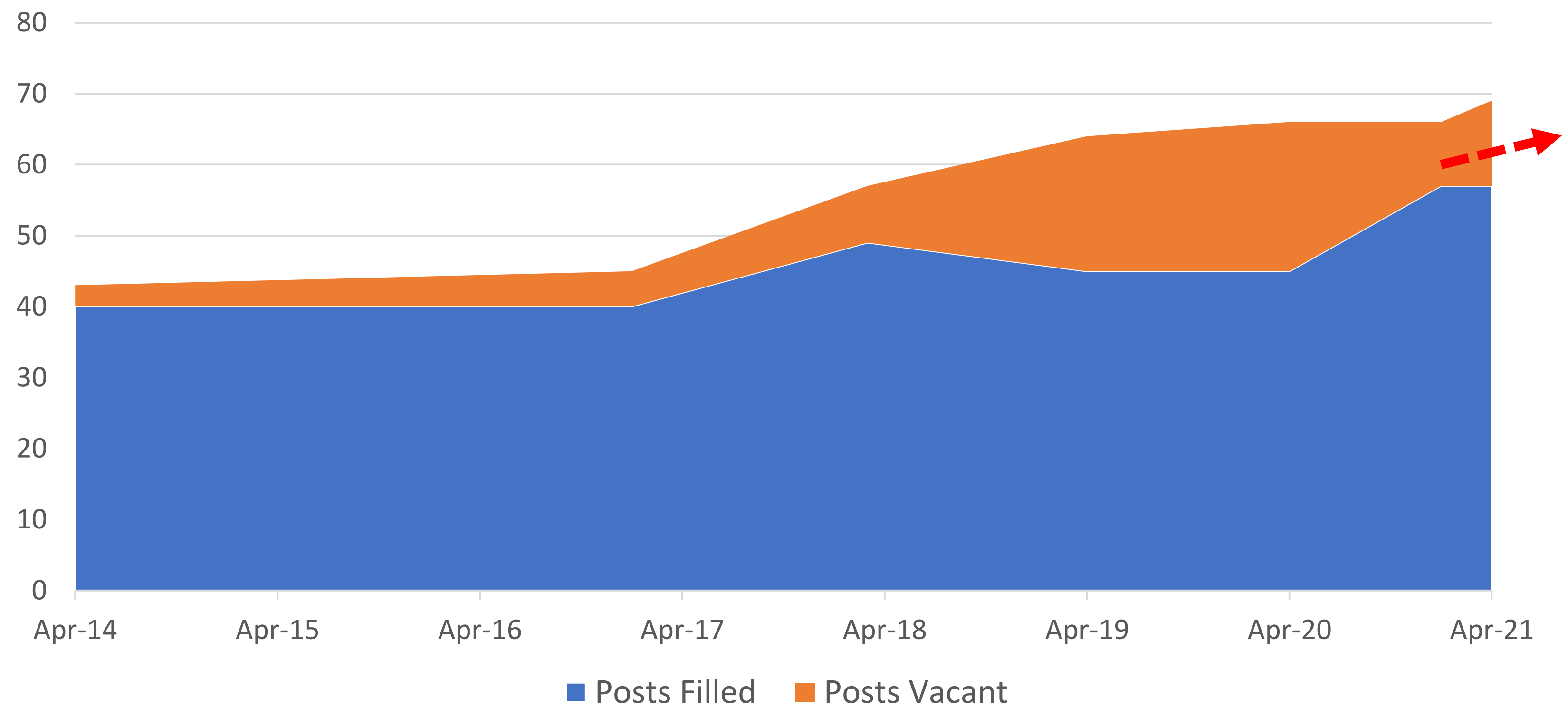
Admin & Investment Resourcing



Apr 2014
New LG Scheme Introduced

Jan 2017
Admin Restructure and Brunel

Apr 2018
Additional Resource for Projects Allocated

Jan/Apr 2020
Resource for i-Connect / Investments & Temp Resource for McCloud Remedy

Apr 2021+
Digital Transformation

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Appendix 2a - Service Plan 2021

Key Objectives	Tasks	Original Target Date	Completion Date	Status
Administration Strategy				
COMMUNICATION				
Member digital engagement	Activate online ABS availability - deferreds	Aug-21	Aug-21	In progress
	Activate online ABS availability - Actives		Aug-22	In progress
	Strategy to Maximise MSS take up	Dec-22	Mar-22	In progress
IT STRATEGY				
Improvements				
Progress full employer electronic data delivery	Completion of i-connect project	Mar-22	Mar-22	In progress
Development				
Progress software developments with Heywood	Development of online leaver form	Dec-20	Mar-22	In progress behind schedule
	Enhanced secure 2 way portal functionality	Dec-21	Mar-22	In progress behind schedule
	Iconnect reporting - Dashboard in place and development of pre load data validation in progress	Dec-20	Mar-22	In progress
RECRUITMENT & TRAINING				
Recruitment	Project to fill app 10 posts across Member & Employer Services	Sep-20	Jun-21	In progress
Training & development plan	Introduce staff training programme covering operational & digital transformation requirements	Jun-20	Mar-22	In progress
OTHER PROJECTS				
Revise Fire Service model	Develop revised service offer and SLA	Apr-19	Mar-22	In progress
Data improvement	Address Rectification		Mar-22	In progress
	Care Roll up	Jun-20	Mar-23	In progress
McCloud	Implementation of remedy - Fire	Apr-22	Oct-23	In progress
	Implementation of remedy - LGPS	Apr-22	TBA	In progress
LGPS Cost Cap Mechanism	Preparation required in case of backdated implementation	Mar-21	TBA	In planning
GMP data reconciliation project	Data match exercise with HMRC to mitigate risk of pension overpayment – GMP Rectification of identified cases	Mar-21	Mar-22	In progress
Processing Backlogs	To clear outstanding task work set at 'Reply Due' (4000 cases)	review 2021	Mar-22	In progress behind schedule
Internal Dispute Resolution Policy	Review general complaints process prior to IDRP and incorporate learning into processes	Jul-21	Jul-21	In progress
NEW ADMIN STRATEGY	Service plan & budget to committee	Mar-21	Mar-21	In progress

	Develop new strategy document & committee approval	Dec-21	Dec-21	**In planning**
	Consultation & implementation	Mar-22	Mar-22	**In planning**
DIGITAL TRANSFORMATION PROJECT	Review structure & recruit Digital Transformation Manager	Mar-22	Mar-22	**In planning**
	Gap analysis & specification for digital requirements	Mar-22	Mar-22	**In planning**
	Revise Communications Strategy	Mar-22	Mar-22	**In planning**
	Staff training & development plan for digital transformation	Mar-22	Mar-22	**In planning**
	Procurement process for pension system	Dec-22	Dec-22	**In planning**
	System implementation	Dec-23	Dec-23	**In planning**
	Develop control framework	Mar-24	Mar-24	**In planning**
	Implement Digital Office to better support staff	Mar-24	Mar-24	**In planning**
	Channel shift to enable support & consultancy to members & employers	Mar-24	Mar-24	**In planning**
Funding Strategy				
Covenant assessment of employers during valuation period	Establish policy for monitoring employer covenant between valuations: rolling timetable for reviewing employers; collection and collation of data; identifying higher risk employers for closer monitoring.	Report annually to committee	Jun-21	**In progress**
	Explore options with employers to mitigate covenant risks	Ongoing	ongoing	**In progress**
Valuation and FSS	Interim review, identify issues to be considered in 2022 valuation	new	Oct-21	**In progress**
	Update policies for changes in regulations	Dec-20	Mar-21	**In progress**
Actuarial advisory contract retender	Procure using National Framework	2020/21	Oct-21	**In progress behind schedule**
Review AVC arrangements	Review range of investment choices for members – high level review by advisor to meet governance requirement	2021	2022/23	**In planning**
	Further work to decide on any changes.	2021	2022/23	**In planning**
Funding Communications Strategy	Agree strategy primarily for employers	Jul-20	Jun-21	**In progress behind schedule**
	o Website	Ongoing updating	ongoing	**In progress**
	o Forums/ meetings	Ongoing updating	ongoing	**In planning**
Recruitment	Review resource requirements of Team	new	Mar-22	**In planning**

Investment Strategy				
Transition of assets	Input as member of Brunel Client Group	Ongoing	Ongoing	**In progress**
	Monitor Avon plan for transitioning assets based on Brunel plan	Ongoing	Ongoing	**In progress**
Review of equity allocations	Assess potential to invest all equity assets in sustainable and paris aligned strategies	Dec-21	Dec-21	**In progress**
Review investment Strategy and appropriate risk level	Post interim valuation review risk appetite required to meet funding objective	new	Mar-22	**In progress**
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	Ongoing	**In progress**
	Annual review of trigger points and strategy	Annually 3Q	Annually 3Q	**In progress**
	Arrange Panel & committee training as needed	ongoing	ongoing	**In progress**
Climate Change disclosures	TCFD: Report in line withh TCFD recommendations for 2020/21 year end reports	new	Sep-21	**In progress**
	IIGCC: report in line with asset owner commitment	new	Sep-21	**In progress**
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	2022/23	**In planning**
CMA Order Compliance Statement	Prepare compliance statement and process for monitoring Investments Consultant	new	30/11/21	**In progress**
FRC Stewardship Code	Prepare compliance statement	new	01/12/21	**In progress**
Team Resources	Appoint Senior Investment Officer	2020	2021	**In planning**
	Consider team structure post asset transition	2022	2022	**In planning**
Investment Communications Strategy	Agree strategy across all stakeholders	ongoing		**In progress**
	o Website	ongoing		**In progress behind schedule**
	o Newsletters	ongoing		**In progress**
	o Forums/ meetings	ongoing		**In progress behind schedule**

Governance				
Review governance arrangements following Good Governance Review & the pooling of assets	Review ToR of Committee and Investment Panel	Jun-21	Jun-21	**In planning**
	Review Governance Compliance statement	Jun-21	Jun-21	**In planning**
	Conflicts of Interest Policy	Mar-22	Mar-22	**In planning**
	Policy on Committee Representation	Mar-22	Mar-22	**In planning**
	Training policy	Mar-22	Mar-22	**In planning**
	R&R matrix	Mar-22	Mar-22	**In planning**
	Cyber security	Mar-22	Mar-22	**In planning**
	Review disaster recovery / business continuity plan	Mar-22	Mar-22	**In planning**
	Document process for dealing with ineffective pension boards	Mar-22	Mar-22	**In planning**
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Ongoing		**In progress**
Training Plan for Committee & Board members	Plan annual training programme for members	Annually in March	Mar-22	**In progress**
Committee & Pension Board	Develop online portal for PC & LPB members – public and secure areas	Jun-20	Jun-21	**In progress**
	Review papers and content that go to committee and set up library on Modern Gov	Jun-20	Jun-21	**In progress behind schedule**
Recruitment for Pension Board	new member & employer rep required	Jun-21	Dec-21	**In planning**
GDPR	Ensure ongoing compliance with regulations	ongoing		**In progress**
	Training for staff			**In progress**
Finance				
Improve Financial reporting to management team	Prepare standard monthly /quarterly reports	Sep-20	Jun-21	**In progress**

Appendix 2b - Completed 2020			
Key Objectives	**Tasks**	**Original Target Date**	**Status**
Administration Strategy			
Member Website	Review member website - accessibility issues	**Sep-20**	**Complete**
Employer website	Review Employer website - accessibility issues	**Sep-20**	**Complete**
Fire Sceheme Member digital engagement	Launch AF&R website with MSS functionality	Mar-21	**Complete**
Iconnect	Implement monitoring & controls	Jul-20	**Complete**
Enhance employer support/decision making capabilities	Roll out of employer online discretionary policy tool/including training & support	Aug-20	**Complete**
Software Developments	Progress ability to bulk delete member records according to data retention policy	Jan-21	**Complete**
Recruitment	Project to make temp posts permanent	Mar-20	**Complete**
	Implement temporary training & support role	Jul-20	**Complete**
McCloud	Plan needed to prepare	Dec-20	**Complete**
	Review requirement for hour changes	Dec-20	**Complete**
£95k Exit Payments Cap	Implementation Project	Nov-20	**Complete**
Statutory refund payment	Review of member data to establish qualifying entitlement to statutory refund under LGPS Regs 2014	Ongoing	**Complete**
Internal Dispute Resolution Policy	Review internal process – identify resource for stage 1 & 2 review and develop employer engagement	Dec-20	**Complete**
Investment Strategy			
	· Renewable infrastructure	Commitments made	**Complete**
	New private market alloactions	Commitments made	**Complete**
	Strategic Benchmark review	3Q20	**Complete**
Monitor risk management strategies ensuring collateral managed efficiently and decisions taken in timely manner	Implement new Equity Protection Strategy	1Q20	**Complete**
	Explore dynamic hedging	3Q20	**Complete**
Annual review of Investment Strategy Statement (ISS)	Annual or when make significant changes to ISS	Jun-20	**Complete**
CMA Order Compliance Statement	Prepare compliance statement	31/12/20	**Complete**
Investment Communications Strategy	Agree strategy across all stakeholders	Jun-20	**Complete**
Funding Strategy			
Valuation and FSS	Identify FSS aspects/policy reviews required post 2019 valuation	Jun-20	**Complete**
Governance			
Legal contract retender	Procure using National Framework	2020	**Complete**
Effectively manage risks	Implement new process	Jun-20	**Complete**
Scheme of Delegations	Produce and publish document	Jun-20	**Complete**

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Appendix 2c - Service Plan projects on hold 2021

Key Objectives	Tasks	Original Target Date	Completion Date	Status
Administration Strategy				
Member Website	Content review	Feb-21	Mar-23	**On hold**
Employer website	Develop an improved employer online experience- linking directly to relevant SLA and employer responsibilities	Dec-21	Mar-23	**On hold**
	Provide 'knowledge hub' including video training elements	Dec-21	Mar-23	**On hold**
	Implement plan for ongoing review of content	Feb-21	Mar-23	**On hold**
Development of management information hub (ERM)	Management Information & Reconciliation of contributions & i-connect extract. Await further development from Heywood	Mar-20	Mar-24	**On hold**
Review & Implement employer training programme	Employer responsibilities, data & TPR requirements, HR, Iconnect & Discretionary tool	Sep-20	Mar-24	**On hold**
Chargeable Services Offer	Set up framework to manage chargeable services	end 2021	Mar-25	**On hold**
Implement new SLA's with employers	Roll out of new SLA to all employers	Aug-20	Mar-23	**On hold**
MHCLG Further Reforms to Exit Payments	Implementation Project	Feb-21	await regs	**On hold**
GMP Equalisation	GMP equalisation project		await details	**On hold**
DWP Pensions Dashboard	Plan required for implementation	2022	Dec-23	**On hold**
Investment Strategy				
Investment advisory contract retender	Procure using National Framework	2021/22	2022/23	**On hold**
Governance				
Independent Members on Committee	Appoint Independent Member. Terms end 2Q22 (end of 2nd term for one member)	Start January 2022		**On hold**

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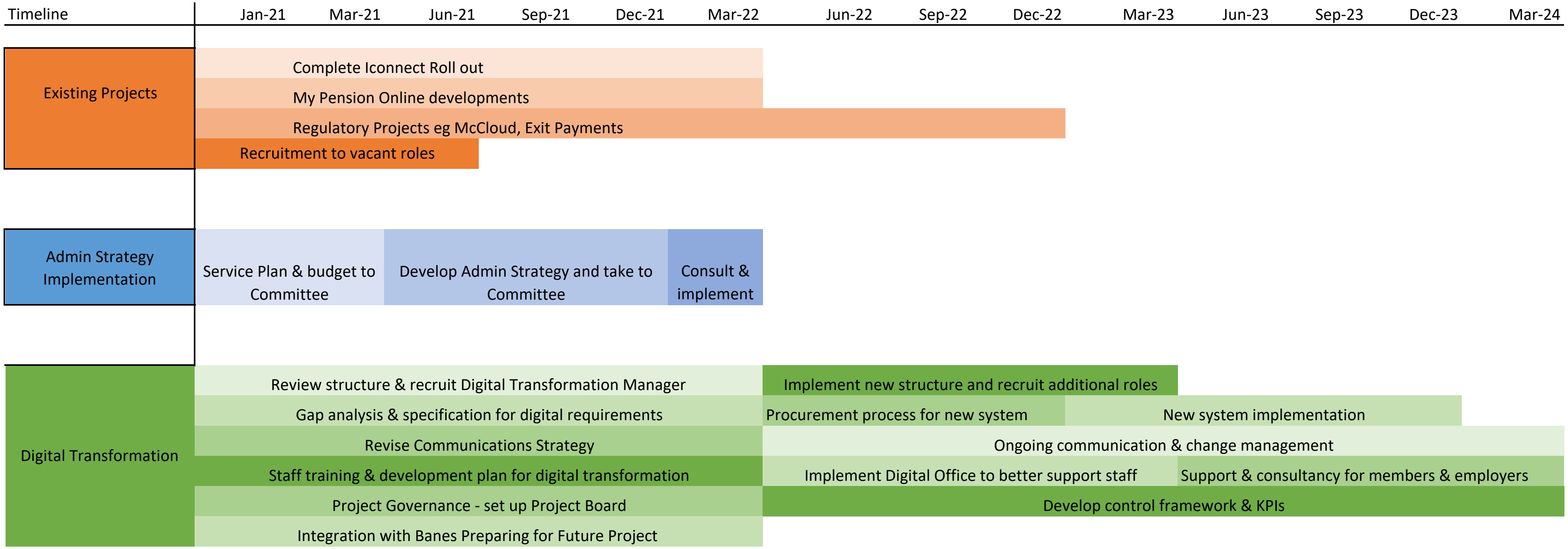
Appendix 3

Roadmap for Admin Strategy 2022 - 2025



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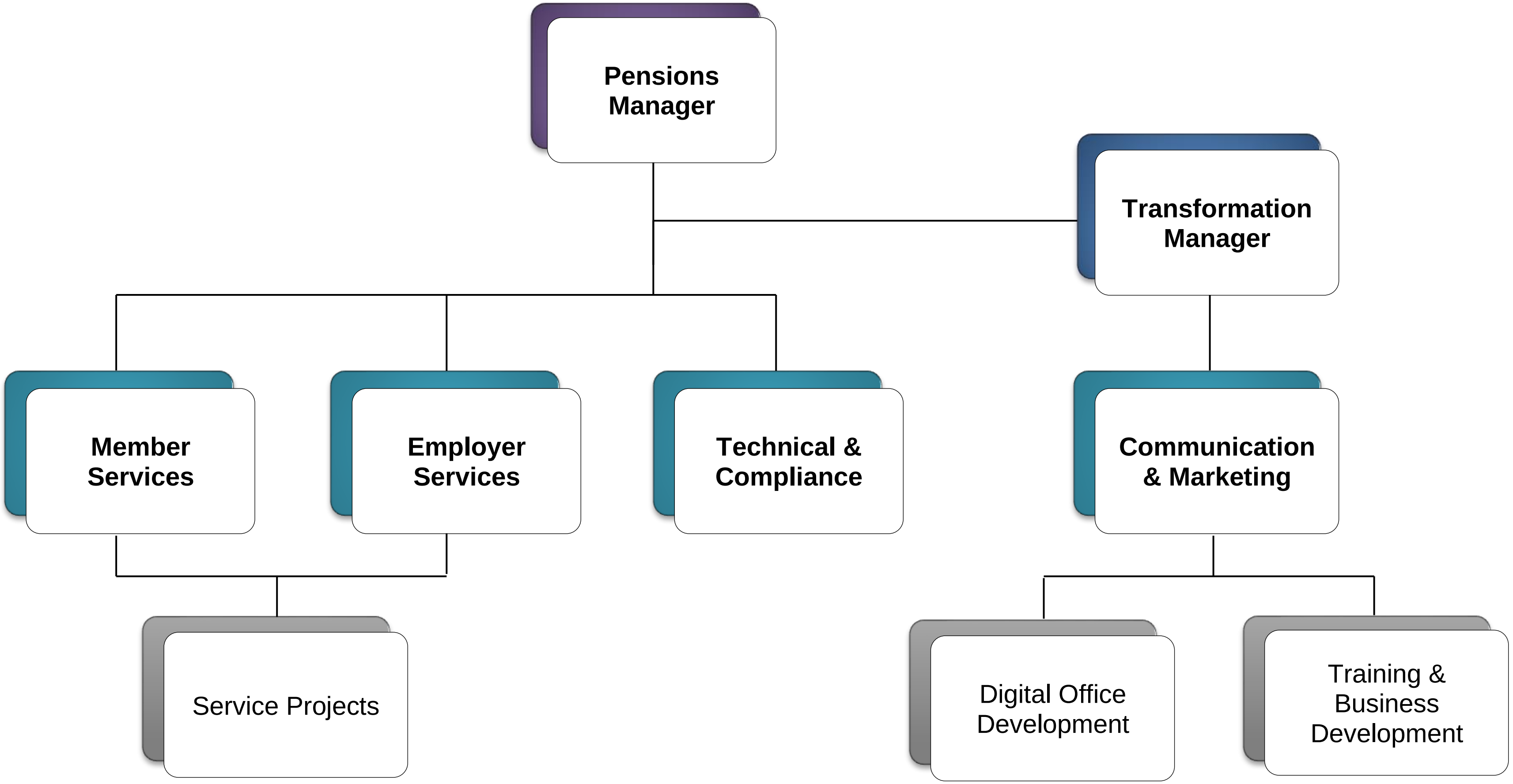
Appendix 4 – High Level Structure



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Budget and Cash Flow Forecast

APPENDIX 5

Three Year Budget	Budget for 2020/21 £	Forecast 2020/21 £	Budget 2021/22 £	Budget 2022/23 £	Budget 2023/24 £
Investment Expenses	28,280	9,929	17,629	17,922	18,220
Administration Costs	89,147	54,518	122,166	95,959	97,879
Communication Costs	144,073	84,326	162,655	133,178	135,242
Payroll Communication Costs	107,669	104,339	152,718	130,272	132,878
Information Systems	374,841	339,903	292,761	298,617	304,589
Salaries	2,620,255	2,209,818	2,953,004	3,202,309	3,052,405
Central Allocated Costs	538,652	538,789	514,212	524,496	534,986
IT Strategy	0	0	0	0	0
Miscellaneous Recoveries/Income	(220,500)	(207,500)	(220,821)	(225,237)	(229,742)
Total Administration	**3,682,417**	**3,134,122**	**3,994,325**	**4,177,516**	**4,046,457**
Governance Costs	475,800	476,255	575,600	437,292	434,998
- Members' Allowances	42,080	42,080	40,735	41,550	42,381
- Independent Members' Costs	58,000	47,735	58,000	58,960	59,939
Compliance Costs	567,930	712,000	801,075	847,097	833,438
Brunel Expenses	25,000	17,000	25,000	25,000	25,000
Compliance Costs recharged	(200,000)	(200,000)	(192,000)	(195,840)	(199,757)
Governance & Compliance	**968,810**	**1,095,069**	**1,308,410**	**1,214,058**	**1,195,999**
Pensions Board	**45,000**	**11,049**	**45,000**	**45,900**	**46,818**
Global Custodian Fees	67,000	67,000	44,000	44,880	45,778
Brunel Management Fees	1,635,000	1,251,487	1,280,000	1,280,000	1,280,000
Investment Manager Fees					
Annual Management Fees	19,380,394	18,244,098	18,057,997	19,141,476	20,289,965
Performance Related Fees	9,470,866	0	1,000,000	1,060,000	1,123,600
Investment Fees	**30,553,260**	**19,562,585**	**20,381,997**	**21,526,356**	**22,739,343**
TOTAL COST TO FUND	**35,249,487**	**23,802,825**	**25,729,731**	**26,963,831**	**28,028,617**

Cash Flow Forecast (Excluding Administration and Investment costs)		2021/22 £'000	2022/23 £'000	2023/24 £'000
Benefits Outflows				
Benefits	Pensions	(163,714)	(166,661)	(169,828)
	Lump sums	(22,392)	(22,795)	(23,228)
Total Benefits Outflows		**(186,106)**	**(189,456)**	**(193,056)**
Inflows				
Deficit recovery		3,958	4,113	4,274
Deficit recovery - paid in advance		7,553	7,848	46,644
Future service Contributions		102,113	106,981	112,080
Future service Contributions - paid in advance		55,487	54,439	55,759
Total Contributions		**169,111**	**173,381**	**218,757**
Net Cash Flow (excluding Administration & Investment costs)		**(16,995)**	**(16,075)**	**25,701**
Divestments & Investment income received as cash		27,000	26,500	(12,500)
Net Pension Transfers In / Out		0	0	0
Cash outflow due to administration of the Fund		(9,838)	(10,035)	(10,235)
Net Cash Flow (Out-Flow)		**167**	**390**	**2,966**

Notes
- Net cash requirements will be met from divestments and cash balances
- Transfers in and out are assumed to net to zero
- The cash outflow due to administration includes Investment Management Fees that are invoiced to the Fund.
- The forecast for 2023/24 includes the assumption that employers will make up-front three year deficit payments in advance. The deficit payments in 2021/22 and 2022/23 are smaller due to some employers making three year advance deficit payments.

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Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **26 MARCH 2021**	**AGENDA ITEM NUMBER**	**10**
TITLE: **TREASURY MANAGEMENT POLICY**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1** The proposed Treasury Management Policy **Appendix 2** Counter parties acceptable under the policy and their Credit ratings		

1. THE ISSUE

1.1. The Fund's Treasury Management policy was approved in June 2020. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.

1.2. The Committee are asked to approve the Treasury Management policy each year.

1.3. The policy proposed for 2021/22 set out in Appendix 1 is the same as the policy approved in June 2020. Counterparties acceptable under the policy and their Credit ratings are shown in Appendix 2.

2. RECOMMENDATION

2.1. That the Committee approves the Treasury Management Policy set out in Appendix 1.

3. FINANCIAL IMPLICATIONS

3.1. The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short-term investment of up to £42m earns interest and incurs transfer costs. However, the significance of an efficient means of short-term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

4. THE REPORT

4.1. The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Treasury Management Strategy. The Fund's Treasury Management is delegated to the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it reflects the different cash flow requirements and the amounts of cash that need to be invested.

4.2. The Fund makes extensive use of Money Market Funds (MMF) and its own call account with Nat West. The MMFs include Goldman Sachs, Aberdeen Asset management and Federated Investors. The rules of access to these accounts particularly suit the Fund's cash flow requirements. A new MMF deposit facility (CCLA Deposit Fund) has been set up for the Fund. The Council are advised to limit any investment in a MMF to 0.5% of the MMF's value which equates to a limit of £7.0m for the CCLA fund.

4.3. The Council's Treasury Management investment policy incorporates ESG criteria where it lends to banks via bank deposits on longer maturity terms. In contrast the Fund requires more liquid cash management which means it utilises money market funds rather than bank deposits meaning that the Council's use of ESG criteria is less applicable to the Fund.

4.4. The Treasury Management Policy is in line with the advice of the Council's Treasury management advisers Arlingclose. All potential counterparties are continuously monitored using the advice of external consultants.

4.5. The Fund aims to retain a minimum working balance of £20m. This ensures that we can pay all pensions and invoices without having to be forced to sell assets and, given the contributions received monthly, will cover approximately 3 months of net outgoings.

4.6. The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria as a result of the policy.

5. RISK MANAGEMENT

5.1. 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.

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 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.

Contact person	David Richards Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting and Statistical Records

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AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2021

1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back into the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	**Time limit**
Banks and building societies based outside the Eurozone holding long-term credit ratings no lower than A- or equivalent. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (A-) or equivalent.	£10m each	2 months
CCLA LA Property Fund	£7m	2 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10 m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£10m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

1, Banks within the same group ownership are treated as one bank for limit purposes.
2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2019
3, as defined in the Local Government Act 2003

8 The cash retained as the required working balance will target £20 million.

9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.

10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

Fitch	Moody's	S&P
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – denote the lowest expectation of credit risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality - denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
B	Highly speculative - indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - A default or default-like process has begun, or the issuer is in standstill, or for a closed funding vehicle, payment capacity is irrevocably impaired.
RD	Restricted default - indicate an issuer that in Fitch's opinion has experienced: a. an uncured payment default or distressed debt exchange on a bond, loan or other material financial obligation, but b. has not entered into bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, and c. has not otherwise ceased operating.
D	Default - indicate an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or that has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given in Appendix 2.

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APPENDIX 2

Proposed Counterparty List - Unsecured Bank Investements

2021/22

CRITERIA	Duration	Fund Limit	FITCH RATINGS S/Term	FITCH RATINGS L/Term	FITCH RATINGS Outlook	Moody's Ratings S/Term	Moody's Ratings L/Term	S&P Ratings S/Term	S&P Ratings L/Term
UK Banks	**Sovereign Rating**			**AA-**			**Aa3**		**AA**
Barclays Bank plc	2 months	10	F1	A+	NEG	P-1	A1	A-1	A
HSBC Bank plc	2 months	10	F1+	AA-	NEG	P-1	A1	A-1	A+
Lloyds Banking Group									
LLOYDS BANK PLC	2 months	10	F1	A+	NEG	P-1	A1	A-1	A+
BANK OF SCOTLAND PLC	2 months	10	F1	A+	NEG	P-1	A1	A-1	A+
Royal Bank of Scotland Group									
National Westminster Bank plc	2 months	10	F1	A+	NEG	P-1	A1	A-1	A
Royal Bank of Scotland plc	2 months	10	F1	A+	NEG	(P)P-1	A1	A-1	A
Ulster Bank Limited	2 months	10	F1	A+	NEG	P-1	A1	A-1	A
Santander UK plc **(domiciled in UK)**	2 months	10	F1	A+	NEG	P-1	A1	A-1	A
Standard Chartered Bank	2 months	10	F1	A+	NEG	P-1	A1	A-1	A
UK Building Societies									
Nationwide	2 months	10	F1	A+	NEG	P-1	A1	A-1	A
UK: OTHER INSTITUTIONS									
LCR FINANCE PLC	2 months	10		AA-	NEG		Aa3		AA
NETWORK RAIL INFRASTRUCTURE	2 months	10		AA-	NEG	P-1	Aa3		
UNITED KINGDOM	2 months	unlimited	F1+	AA-	NEG		Aa3	A-1+u	AAu
WELLCOME TRUST FINANCE PLC	2 months	10					Aaa		AAA
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAAu**
Australia & New Zealand Banking Group	2 months	10	F1	A+	NEG	P-1	Aa3	A-1+	AA-
National Australia Bank Group									
National Australia Bank Ltd	2 months	10	F1	A+	NEG	P-1	Aa3	A-1+	AA-
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAAu**
Development Bank of Singapore Ltd	2 months	10	F1+	AA-	NEG	P-1	Aa1	A-1+	AA-

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**		
MEETING DATE:	**26 March 2021**	**AGENDA ITEM NUMBER**	11
TITLE:	**Annual Review of Risk Management & Register**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix A – Risk Register comparison 2020 to 2021 Appendix B – full Risk Register as at March 2021 Appendix C – Dashboard as at March 2021			

1. THE ISSUE

1.1. The purpose of this report is to provide the Committee with a review of the risk management process and risk register for the period March 2020 to March 2021.

2. RECOMMENDATION

2.1. That the Committee notes the report.

3. FINANCIAL IMPLICATIONS

3.1. There are no financial considerations to consider.

4. REPORT

BACKGROUND - RISK MANAGEMENT PROCESS & RISK REGISTER

4.1. The risk register 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.

4.2. 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.

4.3. 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) Employer risk in event an employer is unable to meet their obligations – mitigated by appropriate funding strategies and policies, covenant monitoring and employer engagement.

(v) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(vi) 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

ANNUAL REVIEW OF RISK MANAGEMENT & REGISTER

4.5 In summary, over the last year, all risks have been reviewed at least once and there have been the following changes:

- 1 new risk added
- 5 risks removed or combined with other risks
- 10 risk scores increased
- 4 risk scores decreased
- 16 risks remained unchanged
  The detail of the changes can be found in the Risk Register Comparison in Appendix A. The full risk register as at March 2021 can be found in Appendix B & Dashboard in Appendix C.

4.6 The main increases to risks throughout the year were:

(i) A risk was added to the register in May 2020 to reflect the difficulties for the Fund in sustaining homeworking arrangements during the Pandemic. The situation continues to be monitored with risk assessments carried out for all staff, processes reviewed & digital solutions implemented where possible. New IT equipment for all staff will be rolled out in 2021 and a new digital strategy will be planned over the next year.

(ii) Other risks were also affected by the uncertainty caused by the Pandemic particularly around the possibility of lower investment returns and the covenant of scheme employers. Although the risk scores have increased as markets remain volatile, significant market recovery has led to the Fund recovering 1Q20 losses. The Fund's portfolio is positioned defensively with risk management strategies in place to mitigate risks where possible and protect capital. A workplan is in place to monitor employer covenant over the year ahead.

(iii) Scheme regulations also caused uncertainty particularly with the introduction of the Exit Payment Cap which has now been temporarily revoked and the ongoing McCloud rectification project. Preparation work has been put in place, but the increased administration burden will continue to be a challenge as further regulation and guidance is awaited.

4.7 Some of the actions taken to mitigate risks during the year were:

(i) Although Climate Change still represents a significant risk to the Fund, by including specific net zero and carbon targets in the investment strategy and increasing investment in sustainable equities and renewable energy assets risk score has reduced slightly.

(ii) Significant work has been done to improve the controls for IConnect following a data breach in 2019. Following an audit of the system and a data protection impact assessment an IConnect Team was set up and new tools are being developed to improve the system controls further.

(iii) Regulations changed regarding the payment of exit credits to employers in March 2020. A robust policy has been written & agreed by Committee in December 2020 setting out the Fund's determination process to comply.

4.8 One of the risks that has remained a challenge during the year is:

(i) Recruitment of staff continues to be a challenge for the Fund. A phased recruitment campaign has been in operation since September 2020 and is making good progress. The inclusion of a full time training role has been a great success in rolling out induction and ongoing training to new recruits and existing staff.

5. EQUALITIES

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

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 Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7. CONSULTATION

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

Contact person	**Carolyn Morgan - Governance & Risk Advisor – 01225 395240**
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix A - Risk Register Comparison 2020 to 2021

Risk Number	Risk	Impact	Mar-20 Impact Level	Mar-20 Likelihood Level	Mar-20 Risk Score	Mar-21 Impact Level	Mar-21 Likelihood Level	Mar-21 Risk Score	Trend
R64 NEW 5/20	Sustainability of working arrangements during Covid 19 outbreak	Unable to deliver service to members and employers				High	Possible	12	▲
R63	McCloud/Sargeant Judgements resulting in the extension of protections	Increase in workload on administration side and for scheme employers	High	Likely	16	High	Almost Certain	20	▲
R26	Failure to earn investment returns	scheme cannot meet liabilities, employer conts could rise	High	Possible	12	High	Likely	16	▲
R23	Deterioration in financial stability of employers (employer Covenants)	employers not able to meet their liabilities impact on rest of Fund	Medium	Possible	9	High	Likely	16	▲
R54	Delays in transition of assets to Brunel or Brunel fails to deliver its objectives	delays could impact pool's ability to deliver savings in line with business case or pool could fail if objectives are not met	High	Unlikely	8	Medium	Likely	12	▲
R47	Implementation of changes arising from scheme cost cap mechanism	Additional burden on administration. Awareness of members & employers	Negligible	Possible	3	High	Possible	12	▲
R53	Political pressure to reform the LGPS eg The introduction of the exit payment cap	This will place an additional burden on the administration resource	Negligible	Likely	4	Low	Likely	8	▲
R29	Service delivery efficiency & customer service	poor member outcomes	Low	Rare	2	Medium	Possible	9	▲
R10	Late / incorrect ontributions from employers	cashflow, employer funding position, TPR breach	Medium	Unlikely	6	Medium	Possible	9	▲
R39	Loss of capital or income on treasury investments	Delayed return of principle or investment income	Negligible	Unlikely	2	Low	Possible	6	▲
R60	Climate Change Emergency	Significant financial risk to the value of the investments assets	Critical	Likely	20	Critical	Possible	15	▼
R59	Iconnect data from employers	Incorrect member data on records and valuation of employer liabilities	High	Likely	16	High	Possible	12	▼
R19	failure of employers to meet statutory responsibilities	Potential fines, greater scrutiny and more reporting	Low	Likely	8	Low	Possible	6	▼
R62	Exit credits - disputes between exiting employer & outsourcing employer	Court cases to decide who should receive exit credit	Low	Unlikely	4	Low	Rare	2	▼
R28	Recruitment of staff	Fund's ability to develop & implement service plan and administer the Fund	Critical	Almost Certain	25	Critical	Almost Certain	25	◀▶
R56	Increase in employers	increased resources needed to support more employers	High	Likely	16	High	Likely	16	◀▶
R42	Political Pressure to reform the scheme & direct investment decisions eg ESG	National decisions are not in best intersests of the scheme	High	Likely	16	High	Likely	16	◀▶
R25	Inadequate knowledge of those charged with governance. Committee Members knowledge is impacted by re-election process. Failure to comply with statutory regulations	delays in decision making for the Committee & Fund. Failure to meet MIFID & TPR regs	Medium	Likely	12	Medium	Likely	12	◀▶
R05/R58	Failure to secure and manage personal data held by the Fund in line with Data Protection Regulations	Personal data is corrupted, compromised or illegally shared resulting in fines & reputational damage.	High	Possible	12	High	Possible	12	◀▶
R57	Introduction of Cost Transparency Disclosures	full disclosure requirements may not be met (presentation of data in AR on a best endeacours basis)	Low	Possible	6	Low	Possible	6	◀▶
R01	Disaster Recovery & Business Continuity	Fund is unable to operate and members do not receive pension payments in time	Medium	Unlikely	6	Medium	Unlikely	6	◀▶
R55	Brexit	negative impact on investmentstrategy & returns	Low	Unlikely	4	Low	Unlikely	4	◀▶
R20	Governance risk of Investment Managers, custodian & other investment suppliers	loss of assets or inability to trade due to assets being inaccessible	High	Rare	4	High	Rare	4	◀▶
R40	Cashflow profile is maturing	not enough cash in bank account to meet pension payments	Medium	Rare	3	Medium	Rare	3	◀▶
R14	System Failure of BACs or Cseries	pensions cannot be administered & paid	Medium	Rare	3	Medium	Rare	3	◀▶

R08/R09	Internal Controls are not adequate & independently checked	committee & employers do not receive independent assurances	Medium	Rare	3	Medium	Rare	3	◀▶
R07	Ineffective stakeholder communication	poor public relations with members & employers. TPR breach	Medium	Rare	3	Medium	Rare	3	◀▶
R52	Investment Strategy impact by MIFID II	restrictions on investments as retail investor	Low	Rare	2	Low	Rare	2	◀▶
R51	GMP Reconciliation	Incorrect pension liability retained	High	Possible	12	Negligible	Unlikely	2	◀▶
R41	Failure to comply with Council's policies & codes of practice	fines for non-compliance, disciplinary issues & reputational risk	Low	Rare	2	Low	Rare	2	◀▶
R45	Cashflow as a result of transfers outs due to Pension Freedom & Choice	removed Feb 2021 - no increase in transfers recorded							
R58	Cyber Security - systems are compromised by hacking or weak controls	removed May 2020 - combined R05							
R09	Commitment of fraud due to poor internal control framework	removed March 2020 - combined with R08							
R61	McCloud - judgement on age discrimination extending beyond current protections	removed May 2020 - accounted for in Valuation							
R38	Pension fund monies not accurately allocated via income receipting system	removed March 2020 - risk removed due to APF own bank account							

Appendix B - Risk Register

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 started in Januuary 2021.
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 implementaion guidance is not due until early 2021).
Political Pressure to reform the scheme & direct investment decisions eg ESG	R42	National decisions are not in best intersests of the scheme		◄►	Participate in Brunel pool, ISS aligned with Fund's Climate Change policy. Supreme court judgement against SoS 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. Developing comms strategy to manage ESG information and debate more proactively with all stakeholders. Government policy stalled temproariliy due to pandemic but DWP/MHCLG/SAB guidance on ESG being issued and still high on agenda.
Failure to earn investment returns	R26	scheme cannot meet liabilities, employer conts 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.
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		◄►	Climate Change still represents significant risk to investment strategy and value of underlying holdings due to lack of clarity on how companies will meet respective emissions reductions targets. Interim equity allocation review commencing May/June 2021 to better understand impact of increased allocation to sustainable equities and move into next geenration passive equity indices building on funds low carbon approach. Brunel portfolios seek to reduce emissions by 7% YoY to facilitate client net zero ambitions. 2022 stocktake to assess whether on track to achieve this.
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		◄►	Hymans NKA reviewed and training planned throughout the year for committee & PB members inline with the recommendations. Plan to recruit in 2022 for ind member and 2021 for PB 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 objectives are not met		◄►	Monitoring of transition plan by Inv Panel & Committee. Transition plan nearing completion. Focus shifting to BAU/strategic developments.
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. DPIA to be reviewed 2021 & audit actions complete. New tolerances in IC will stop a load proceeding without the fund's approval enabling loading to be handed back to some employers.
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
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 damage.		◄►	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

Service delivery efficiency & customer service	R29	poor member outcomes		◄►	We are working on a number of initiatives that will increase the resilience of our communications: We have started to expand our use of MSS (Member Self-Service) for member communications starting with developing the Deferred payment request initiated with a digital request. This will then form a template on how future services can be digitised. We have started to develop a Digital ABS option for Deferred members and will soon be testing a Word template. We are also exploring the options for the relocation of our Altair Scanner to a remote location which will improve our organisational resilience, and safeguard staff members.
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.
Political pressure to reform the LGPS eg The introduction of the exit payment cap	R53	This will place an additional burden on the administration resource		▼	Exit Payment Regulations no longer apply with effect from 12 Feb 21, removing the position of legal uncertainty. No cases were processed during the period 4 Nov 20 to 11 Feb 21 therefore no retrospective adjustments are required. There are not likely to be any changes to the LGPS regulations in this area before the government reconsider the changes that are required to tackle unjustified exit payments, which is likely to take some time and require consultation.
Loss of capital or income on treasury investments	R39	Delayed return of principle or investment income		◄►	Annual report on Treasury Management Policy (TMP) will be taken to committee in March. The TMP for APF closely aligns with the Council's (approved by Corporate Audit Committee in February). The Council recognises the importance of robust treasury management and appointed a qualified accountant with specific responsibilty for treasury issues (appointed 13 months ago). It also uses the advice of Arlingclose in its decision making.
failure of employers to meet statutory responsibilities	R19	Potential fines, greater scrutiny and more reporting		◄►	Employer training, reconciliation of member data at year end and regular reporting in line with TRP requirements
Disaster Recovery & Business Continuity	R01	Fund is unable to operate and members do not receive pension payments in time		◄►	Disaster Recovery & Business Continuity plans in place and reviewed. APF - BCP (COVID-19) summary overview report produced detailing actions udertaken by the Fund to manage COVID risk. Report circulated to Pensions Committee for comment. Osborne Clark Business Continuity template completed. Risk assessment being carried out for all staff regarding home working conditions and mental health as per Banes guidance and in line with business recovery plan. Further procedures to be reviewed to enasure fit for purpose for remote working.
Introduction of Cost Transparency Disclosures	R57	full disclosure requirements may not be met (presentation of data in AR on a best endeacours basis)		◄►	Full disclosure for FY19/20 was not met although there was significant improvement on the prior year. Disclosure rates moved from 70% to 87% of managers reporting in line with CTI guidance. Improvement in disclosures due to private markets mandates coming into scope and improvements to the reporting templates which facilitated more granular reporting from listed markets mandates. Reporting remains on a best endeavours basis. Certain risk management strategies were unable to report as templates not appropriate. Brunel reported for all of their portfolios. All managers to subit to SAB platform. Consultation on LDI template to conclude.
Governance risk of Investment Managers, custodian & other investment suppliers	R20	loss of assets or inability to trade due to assets being inaccessible		◄►	Robust procurement & contract management processes to protect Fund. Risk transferring to Brunel, monitored by Client Group
Brexit	R55	negative impact on investmentstrategy & returns		◄►	Paper on Brexit risks taken to Nov 20 Panel. Cashflow monitoring being developed to ensure sufficient ongoing cash collateral to support strategy. UK property transition due in Jan 2021 - UK property portfolio positioned defensively i.e. underweight retail and office space; overweight industrials.
System Failure of BACs or Cseries	R14	pensions cannot be administered & paid		◄►	APF uses BANES corporate system. Risk mitigation in line with BANES corporate policy for making payments. Payments system (Cseries) recently upgraded to PTX including increased security features
Cashflow profile is maturing	R40	not enough cash in bank account to meet pension payments		◄►	Lower level of cash coming in each month due to unitary employers paying in advance means that we have to top up our cash more regularly. Our lower limit used to be 10m and upper 45m. Now the lower limit is 20m and upper limit is 35m. A combination of these factors (plus COVID) mean the we have to monitor our cash position regularly to ensure these limits aren't breached. Top 34 employers continue to pay on time.
Ineffective stakeholder communication	R07	poor public relations with members & employers. TPR breach		◄►	Member & employer comms planned and issued to keep updated re the Coronavirus outbreak. Working closely with our supplier we were able to ensure that mailings were sent to all members (Active/Pensioner/Deferred) detailing our actions in response to the Coronavirus outbreak and also the Climate Emergency. We have kept our employers updated about our response to Coronavirus. We have also ensured that advice and information (including webinars) from the LGA, TPR etc. is communicated effectively via email.
Internal Controls are not adequate & independently checked	R08/R09	committee & employers do not receive independent assurances		◄►	Schedule of internal & external audits throughout the year. Results reported to Committee & Board
Failure to comply with Council's policies & codes of practice	R41	fines for non-compliance, disciplinary issues & reputational risk		◄►	Managers & staff undertake training in accordance with Council's codes of practices and standards

GMP Reconciliation	R51	Incorrect pension liability retained		◄►	JLT/Mercer consultancy work in progress and expected to complete in March 2021. Outcomes determining potential incorrect liability will be reviewed pending decision on any further action.
Investment Strategy impact by MIFID II	R52	restrictions on investments as retail investor		◄►	Fund given Elected Professional status from all Managers, annual review & Officer / Member training in place. Review to be carried out with Brunel.
Exit credits - disputes between exiting employer & outsourcing employer	R62	Court cases to decide who should receive exit credit		◄►	Regs changed 20th March 2020. We have implemented a determination process to comply with the new Regs and adopted. We are paying 3 small exit credits to employers at present following our new proceedure. We can anticipate disputes in future so having a strong policy will be essential. A policy is drafted ready to sendingit to Mercer to finalise before the December committee meeting

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Appendix C - Dashboard

Governance Risks (Total 4)

Impact	Rare	Unlikely	Possible	Likely	Almost Certain
Negligible	0	0	0	0	0
Low	1	0	0	0	0
Medium	1	0	0	1	0
High	0	0	0	0	0
Critical	0	0	0	0	1

Investment & Funding Risks (Total 11)

Impact	Almost Certain	Likely	Possible	Unlikely	Rare
Negligible	0	0	0	0	0
Low	0	0	2	1	2
Medium	0	1	0	0	0
High	0	3	0	0	1
Critical	0	0	1	0	0

Administration Risks (Total 13)

Impact	Rare	Unlikely	Possible	Likely	Almost Certain
Critical	0	0	0	0	0
High	0	0	4	1	1
Medium	2	1	1	0	0
Low	0	0	1	1	0
Negligible	0	1	0	0	0

Financial Risks (Total 2)

Impact	Almost Certain	Likely	Possible	Unlikely	Rare
Critical	0	0	0	0	0
High	0	0	0	0	0
Medium	0	0	1	0	1
Low	0	0	0	0	0
Negligible	0	0	0	0	0

The above tables show the number of risks, broken down by type, and their current risk exposure

Key:- Based on Risk Score

- Green: 1-6
- Amber: 7-14
- Red: 15-25

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 March 2021**	**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 Exempt 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 January; the minutes of this meeting are not yet available; December minutes are in Exempt Appendix 4. The next BOB meeting is in March.

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.

There were no RED rated strategic risks and CG have not raised any material issues with BOB.

d) A number of decisions for approval are currently being considered by the Shareholders:

i. The Business Plan and Budget for 2021/22. The Business Plan focuses on 3 key client priorities, namely, improved client reporting, delivering the Paris aligned portfolios and increasing resilience in the private markets team. To accommodate this Brunel are proposing a 3% increase in the budget that was supported by CG and BOB.

ii. The appointment of a new Shareholder NED is in the process of being approved by the Shareholders. In addition, two new NEDS are being recruited.

iii. Changes to the Shareholder Agreement (SHA) for changes in regulations and the fact that Brunel PP Ltd is now operating.

e) The next stage of the governance review is now underway with proposed changes being considered by CG and legal officers. The objective of the review is to ensure communications between the relevant parties are effective and arrangements are updated for regulatory/legal changes. Any changes to the governance arrangements will require shareholder approval.

f) A verbal update of the March BOB meeting will be given at the meeting.

4.2 **Investments:**

a) There have been no further transitions since the last update.

b) The transition of the listed assets is nearing completion for Avon with only the Multi asset Credit mandate to transfer. 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. 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.

c) Exempt Appendix 5 provides an update on fee savings and transition costs following the Global Sustainable Equities transition.

d) Avon's assets that have transitioned now total £3.26bn (at 31/12/20). In addition, Brunel invests £133.9m in Secured Income and £48.1m in Renewable Infrastructure on behalf of the Fund. The investment in Private Debt has yet to commence.

Brunel portfolio	**Value at 31/12/20**	**Transitioning Mandates / Managers**	**Date transitioned**
Passive Equities	£665.9m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£0m	UK Equities - TT International	Nov 2018
Emerging Market Equities (EM)	£280.8m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£390.9m	Global Equities - Schroders	Nov 2019
Risk Management Strategies	£878.0m	Blackrock LDI and EPS	Oct 2019
Diversified Return Funds	£508.0m	Diversified Growth Funds – Pyrford, Ruffer (partial)	July 2020
Sustainable Equities	£538.8m	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 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.

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. £100k).

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 updated for the Global Sustainable Equities portfolio.

c) Business case review: the OBC is reviewed against actual costs and savings annually. The 2020 review forecasts savings in excess for the OBC for the pool as a whole at over £600m by 2036 and breakeven in 2024 which is a year later than originally forecast. For Avon the predicted savings are ahead of the OBC at c. £80m and the breakeven remains at 2024. These figures will be fully reviewed prior to disclosure in the 2020/21Annual Report.

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 March 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.

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

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 322/21

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 26 March 2021

Author: Liz Woodyard
Report Title: Brunel Pension Partnership – Update on pooling **List of Exempt 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 Exempt Appendix 4 – Brunel Oversight Board Draft 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.

Bath & North East Somerset Council

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 include 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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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	• 1Q2017	Complete
Key legal documents	• Articles of Association, Shareholders Agreement, Services Agreement, Pricing Policy, Remuneration Policy, Exit Policy, Funding Policy	Completed; Limited review in progress
Avon representation	• Committee representative on Oversight Board • Officer representatives on Client Group	Complete

People & Resources

Risk Area	Aspects	Status
Staffing implications	• Brunel Staff recruitment • Resourcing of APF team ○ Governance and Risk Manager ○ Senior Investment Officer	Green Complete Complete

Processes and providers

Risk Area	Aspects	Status
Relationship management	• Identify all contract and specification changes (advisors, managers, custodian during transition)	Green - Ongoing
Custody contract	• Transitioned to new custodian Dec 2017	Complete
Client Group activity (CG)	• Portfolios • CG sub groups to focus on key areas: ○ Financial ○ Operations ○ Investments ○ Responsible Investing ○ Strategic & Governance	Green Avon is represented on the financial, investments and RI subgroups
Internal process /policy change	• Cash Management, Rebalancing, Custody processes, Investment management and reporting	Green – ongoing
Transition of assets	• Transition plan • Monitor transition plan, transitions, risks and costs/savings • Avon plan for transitioning legacy assets	Green – on track Green – Avon project plan; Brunel providing reports to capture costs and analyse transitions to Brunel portfolios Green – due IP May 2021

Budget & expenditure

Risk Area	Aspects	Status
Clarity on budget agreed as part of Original Business Case	• Budget update reported to Oversight Board and Client Group • 2021/22 Budget & 3 year Business Plan agreed by Shareholders	Green – ongoing Green – in progress
APF budget for Brunel costs	• Investment and operational costs of Brunel included in APF 2021/22 budget • Governance costs of supporting Client side work included separately	Green – Brunel investment management fees in fee budget; CG support in governance costs
Delivery of OBC objectives - costs/savings	• Will be monitored as part of client reporting suite • Client Group to review costs against OBC	Green – reporting includes actual costs vs. budget, transition costs & fee savings, investment performance Green –annual review

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 MARCH 2021**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1** – Draft Minutes from Investment Panel meeting held 26 February 2021 **EXEMPT Appendix 2** – Draft Exempt Minutes from Investment Panel meeting held 26 February 2021		

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 26 February 2021. 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 draft minutes of the Investment Panel meeting on 26 February 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 Private Markets Portfolios – Cycle 2 Commitments: Under delegated powers Panel considered whether to top up Cycle 2 commitments to the Secured Income, Renewable Infrastructure and Private Debt portfolios in line with the strategic allocation weights determined at 2019/20 investment review. Given market uncertainty due to the pandemic in April 2020, the Fund scaled back its initial commitment to Cycle 2 with the intention to review whether to top up in March 2021. Following a presentation by Brunel, Panel agreed to top up the cycle 2 commitments to the full strategic asset allocation weights in line with the recommendation from Mercer.

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.

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

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BATH AND NORTH EAST SOMERSET

MINUTES OF AVON PENSION FUND COMMITTEE INVESTMENT PANEL MEETING

Friday, 26th February, 2021

PRESENT:

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

Advisors: Steve Turner (Mercer), Josh Caughey (Mercer) and Hemal Popat (Mercer)

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

35 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

36 DECLARATIONS OF INTEREST

There were none.

37 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

38 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

40 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

41 MINUTES - 20TH NOVEMBER 2020 (PUBLIC) AND 20TH NOVEMBER 2020 (EXEMPT)

Pauline Gordon commented that on page 18 of the minutes the last sentence should read that she ‘agreed that the concepts underpinning the Dynamic Strategy are the same as that under Static.’

With that amendment in mind the minutes of the meeting on 20th November 2020 were confirmed as a correct record.

42 PRIVATE MARKET PORTFOLIOS

The Group Manager for Funding, Investments & Risk introduced this report to the Panel. She explained that the investment cycles for the Brunel private markets are every two years. Where a client allocates to a cycle in year 1, they have the option to 'top-up' their committed amount in year 2.

She said that for Cycle 2 which began in April 2020, Avon allocated to the Secure Income, Renewable Infrastructure and Private Debt portfolios but did not commit the full allocation at that point; in March 2021 the Fund has an opportunity to increase the amount committed.

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 agree to top up the commitments to the private market portfolios as outlined in Exempt Appendix 1.

43 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She explained that the reporting process for this work was changing with Mercer moving to taking a more strategic role.

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.

44 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2020

The Investments Manager introduced this report to the Panel. He said that it should be noted that the Brunel Performance Report shows the portfolios that the Fund are invested in are tracking below their indices for carbon intensity.

He explained that the Fund is currently undertaking an analysis of its current disclosures to better understand what is required under the new FRC Stewardship

Code and the TCFD reporting requirements in order to meet compliance for the 2020/21 financial year.

He stated that officers and Mercer have reviewed counterparty banks shortlisted for the implementation of the dynamic equity protection strategy. He added that having assessed the banks across a broad set of criteria including cost, operational capability and client servicing, officers and Mercer, under delegated authority, agreed to appoint three banks to minimise concentration risk. He said that the final appointment of each bank will be subject to an independent legal review of key trade terms and documentation.

He said that the residual holding in the Ruffer DGF (c. £160m) was sold in December in anticipation of private markets drawdowns and to align the portfolio with the 10% strategic allocation. He added that the cash proceeds of the sale were subsequently invested in the Fund’s liquidity strategy, managed by BlackRock.

Steve Turner, Mercer addressed the Panel and said that a number of political events as well as news of the vaccine rollout drove strong returns across most assets over Q4.

He said that there were a number of strong returns seen in Q4, in particular the Brunel Global High Alpha Equity portfolio outperformed its index by 1.2% over the quarter and by 13.6% over the year. He added that it was also pleasing to see in Q4 the performance of the Brunel Global Sustainable Equities and Emerging Markets portfolios, outperform their respective indices by 0.5%. He added that the newly launched Brunel Diversified Returns Fund was able to capture significant upside too, posting a return of 3% above its cash benchmark.

John Finch asked how the risk/reward number for property had been calculated, commenting that it seemed low relative to other real assets such as infrastructure.

Steve Turner replied that he would need to check before replying definitely. He added that he would like to say that it is based on the actual valuation of the assets contained within the portfolio, where property values have remained reasonably stable, compared to the wider sector.

Pauline Gordon asked whether the significant outperformance of the Global High Alpha portfolio was sustainable and whether it might reverse over the coming year and questioned the degree of risk taken to generate the returns within that particular portfolio.

Steve Turner replied that while Brunel have greater transparency on the risk drivers of the portfolio, based on what he knows about the portfolio and the balance of growth and value styles of the underlying managers he would expect a degree of consistency in returns, accepting that recent outperformance has been exceptional. He commented that the allocation to Baillie Gifford was a key contributor to the portfolios returns as they outperformed the benchmark by around 100% last year with a lot of their stocks doubling in value. He added that this was unlikely to be repeated on a regular basis.

The Chair asked, in terms of the currency market, if it was known why the Pound has strengthened recently more against the Dollar than the Euro.

Steve Turner replied that it was difficult to be precise but felt that sterling had strengthened on the market's perception of the vaccine rollout.

The Group Manager for Funding, Investment & Risk asked if the expectation regarding interest rates or bond yields were having an effect on the currency markets.

Steve Turner replied that he didn't think that this was a considerable factor at the present time.

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.

45 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She informed them that a workshop was likely to take place prior to their meeting on May 28th 2021.

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

The meeting ended at 3.55 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 & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 MARCH 2021**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 December 2020)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Investment Performance Report Appendix 3 – LAPFF Quarterly Engagement Monitoring Report	

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 31 December 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 93% to 95% over the quarter to 31 December 2020. Based on investment returns and net cashflows into the Fund, the deficit was estimated to have reduced over 4Q20, from £376m to £272m.

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 £138m (3.2% net investment return) over the quarter ending 31 December 2020 giving a value for the Fund of £5,169m. 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 1.0% over the quarter.

Table 1: Fund Investment Returns (Periods to 31 December 2021)

	3 Months	12 Months	3 Years (p.a)
Avon Pension Fund (incl. currency hedging)	3.2%	2.9%	3.7%
Avon Pension Fund (excl. currency hedging)	2.2%	2.8%	3.8%
Strategic benchmark (no currency hedging)	4.5%	3.0%	5.0%
Currency hedge impact	1.0%	0.1%	-0.1%

5.2 **Fund Investment Return:** The prospect of vaccine rollouts and supportive geopolitical events drove growth assets higher across the board. Global equities returned 8.5% in sterling terms. The US lagged other developed regions returning just over 6%, while UK equities rallied over 12%. Over the year US equities generated the strongest returns into the high double digits benefitting from rapid growth in technology stocks, while the UK lagged due to its oil & gas and financials sectoral bias. Yields remained suppressed due to COVID-related central bank stimulus and credit spreads narrowed, indicative of the risk-on sentiment. Sterling appreciated against the US Dollar by 5.7%, by 1.3% against the Euro and 3.4% against the Japanese Yen. Further information on 4Q asset class performance can be found on page 8 of Appendix 2.

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 1.0% 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 the Fund's LDI portfolio provided a marginally positive return due to changes in inflation expectations. Post period-end the Fund's inflation hedge ratio was increased to c.45% of assets, following the outcome of the RPI reform consultation. This means that no further inflation hedging will be implemented even if inflation triggers are hit as the hedge ratio is now at the maximum allowable under mandate guidelines. The suitability of the current mandate guidelines will be factored into the annual review of the risk management framework, which is reported to Panel and Committee in September.

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. This detracted from the overall fund return over the quarter. Officers, acting on advice from Mercer, considered a tactical opportunity to restrike the protection levels given the significant increase in the underlying equity markets, which would allow further upside participation. Due to unattractive pricing and the potential losses incurred under a downside scenario, Officers agreed to take no action but to keep the prospect of closing out the structure ahead of time - and moving to a dynamic approach sooner - under review.

5.6 Post period-end Officers and Mercer reviewed counterparty banks shortlisted for the implementation of the dynamic equity protection strategy. Having assessed the banks across a broad set of criteria including cost, operational capability and client servicing, Officers and Mercer, under delegated authority, agreed to appoint three banks to minimise concentration risk. The final appointment of each bank will be subject to an independent legal review of key trade terms and documentation.

5.7 **Collateral Management:** At the end of the period the collateral position was within prescribed parameters. No breaches were reported during the quarter. The collateral tolerance increased following the sell down of £290m of passive equity holdings to coincide with the inflation hedge increase.

B – Investment Manager Performance

5.8 Brunel reports on the performance of the assets they manage on behalf of the Fund. Mercer continue to provide quarterly commentary and analysis of all the Fund's mandates and at the strategic total fund level. We are reviewing the quarterly reporting given that most of the assets are now managed by Brunel; Mercer's will continue to provide assurance, but the focus will be more strategic.

5.9 Manager total returns over the quarter were positive for all assets except for the overseas property mandate, noting that performance for this mandate is lagged by one quarter. The Fund's active equity portfolios marginally outperformed their respective benchmarks. The Hedge Fund mandate performed well in local currency terms as did the Multi-Asset Credit and Diversified Return strategies. Over the year, the Global High Alpha portfolio delivered significant outperformance, largely as a result of one underlying manager with a significant growth stock bias. The Emerging Market portfolio fared less well, underperforming the benchmark by 1%. There have been significant downward revisions to the values of some underlying overseas property assets over the year, however it is worth noting that the manger has delivered significant value on a since inception basis. Both the core infrastructure and overseas property mandates are affected by static benchmarks, which can magnify underperformance. Over a 3-year period core infrastructure and hedge funds delivered significant value, outperforming their respective benchmarks. The MAC manager underperformed its cash benchmark but posted over 4% in absolute terms. Detailed analysis of investment manager performance can be found at Appendix 2.

6 INVESTMENT STRATEGY

6.1 **Asset Class Returns versus Strategic Assumptions:** Developed market equity returns over the last 3 years were 10.5% 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 6.2%; below the assumed 3-year return of 8.3%. Over the 3-year period index-linked gilts returned 6.1% p.a. versus an assumed return of 1.6%. The 3-year UK property return of 2.8% p.a. lags its assumed return of 5.2%, due to continued uncertainty in the sector.

6.2 **Private Markets Commitments to Brunel Portfolios:** At 31 December 2020 37% of the Fund's Cycle 1 (2018-2020) £115m commitment to Brunel's renewable infrastructure portfolio had been deployed and 37% of the Fund's £345m commitment to the secured income portfolio had been deployed. The pace of capital deployment across both portfolios is expected to increase in the coming quarters as the pipeline for new build and operational renewable energy assets remains strong and acquisition activity is starting to pick-up in the long lease sector. Already in 1Q21, a further £109m has been invested in Secured Income resulting in 70% of the Cycle 1 commitment now invested. Over the quarter Cycle 2 (2020-2022) commitments also began drawing down capital. Of the scaled back commitments made to Cycle 2 in April 2020, 12% of the renewable infrastructure and 7% of the secured income commitments had been deployed. Post period end, Cycle 2 commitments were increased in line with strategic allocation weights. During 1Q21 the Secured Income portfolio made further drawdowns amounting to £36m on Cycle 2 commitments. The Brunel private debt portfolio for Cycle 2 is launching in 1Q 2021 and is expected to start drawing down on the Fund's commitment early in 2Q 2021.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The residual holding in the Ruffer DGF (c. £160m) was sold in December in anticipation of private markets drawdowns and to align the portfolio with the 10% strategic allocation. Cash proceeds of the sale were subsequently invested in the Fund's liquidity strategy, managed by BlackRock.

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 **IIGCC - Paris Aligned Investment Initiative (PAII):** The Fund signed up to the PAII Asset Owner Commitment, which seeks to standardise investors' net-zero commitments and ensure alignment with the overarching goals of the Paris Agreement. The Fund volunteered portfolio data to enable Brunel to participate, alongside 4 other strategic investors, in the initial modelling, testing and development phase of the Framework that underpins the Commitment. When the Fund's portfolio was tested, as part of the pilot, it concluded that a significant degree of alignment had already been achieved in its existing investment strategy due to the low carbon intensity of the Brunel portfolios in which it invests and the significant strategic changes that were made following the 2019/20 review.

8.2 **Brunel Responsible Investment Activity:** Key RI achievements over the quarter included:

i. Brunel was one of 16 institutional investors, representing $2.4tn, that co-filed a climate change resolution at HSBC, co-ordinated by ShareAction. It called on HSBC to publish a strategy and targets in order to reduce its exposure to fossil fuel assets on a timeline consistent with Paris climate goals. In March intensive engagement with HSBC in the lead up to its AGM resulted in Brunel and all co-filers withdrawing the resolution on the understanding that HSBC would put forward their own resolution that includes commitments to set, disclose and implement a strategy with short- and medium-term targets to align its provision of finance across all sectors with the goals and timelines of the Paris Agreement, to phase out the financing of coal-fired power and thermal coal mining by 2030 in the European Union and by 2040 in other markets and to produce an annual report on the progress of the strategy.

ii. Through its membership to the Good Work Coalition, Brunel sent companies a second round of letters arguing for the importance of the living wage and was one of 64 investors to write to the boards of mining companies to seek assurances about how the sector maintains a social license for operations among First Nations and Indigenous communities.

iii. Policy Advocacy – Through IIGCC Brunel signed letters calling for UK and EU leaders to set ambitious 2030 Nationally Defined Contributions (NDC) aligned to their respective Net Zero 2050 targets.

8.3 **Brunel Voting & Engagement Summary**: Federated Hermes engaged with 297 companies held by Avon in the Brunel segregated portfolios on a range of 878 ESG issues. Environmental topics featured in 26% of engagements, 77% of which related directly to climate change. Social topics featured in 22% of engagements, where business conduct, human rights and diversity featured prominently. Of the 31% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 108 meetings (749 resolutions). At 43 meetings they recommended opposing one or more resolutions. 65% of the issues Hermes voted against management on comprised board structure and remuneration.

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

Companies Meetings Voted:	437
Resolutions voted:	3482
Votes For:	2973
Votes Against:	457
Abstained:	13
Withheld* vote:	39

** 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.*

8.5 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.

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

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APPENDIX 1

AVON PENSION FUND VALUATION - 31 DECEMBER 2020

	Brunel Portfolios	**Cash Management Strategy**	**QIF**	**Funds of Hedge Funds**	**MAC**	**Property**		**Infra-stucture**	**Currency Hedging**	**In House Cash**	**TOTAL**	**Avon Asset Mix %**
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities												
UK											0.0	0.0%
Emerging Markets	280.8										280.8	5.4%
Global Developed Markets	390.9		240.9								631.8	12.2%
Global Sustainable Equities	538.8										538.8	10.4%
Global Low Carbon	665.9										665.9	12.9%
Equity Derivatives[1]			-121.3						18.0		-103.3	-2.0%
Total Overseas	***1876.4***		***119.6***								***1996.0***	**39.0%**
Total Equities	**1876.4**		**119.6**						**18.0**		***2014.0***	**39.0%**
Exchange-Traded Funds		**48.6**									***48.6***	**0.9%**
DGFs	**508.0**										***508.0***	**9.8%**
Hedge Funds				**265.1**							***265.1***	**5.1%**
MAC					**321.6**						***321.6***	**6.2%**
Property						**226.0**	**189.3**				***415.3***	**8.0%**
Infrastructure								**359.7**			***359.7***	**7.0%**
Renewable Infrastructure	**48.1**										***48.1***	**0.9%**
Secured Income	**133.9**										***133.9***	**2.6%**
LDI Assets & Bonds												
LDI Assets			618.0								618.0	12.0%
Corporate Bonds			140.4								140.4	2.7%
Total Bonds			**758.4**								***758.4***	**14.7%**
Cash										234.9	***242.2***	**4.7%**
FX Hedging									53.9		***53.9***	**1.0%**
TOTAL	**2566.4**	**48.6**	**878.0**	**265.1**	**321.6**	**226.0**	**189.3**	**359.7**	**71.9**	**234.9**	**5169.3**	**100.0%**

[1] 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 31 December 2020

March 2021

Steve Turner
Joshua Caughey

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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.

CONTENTS

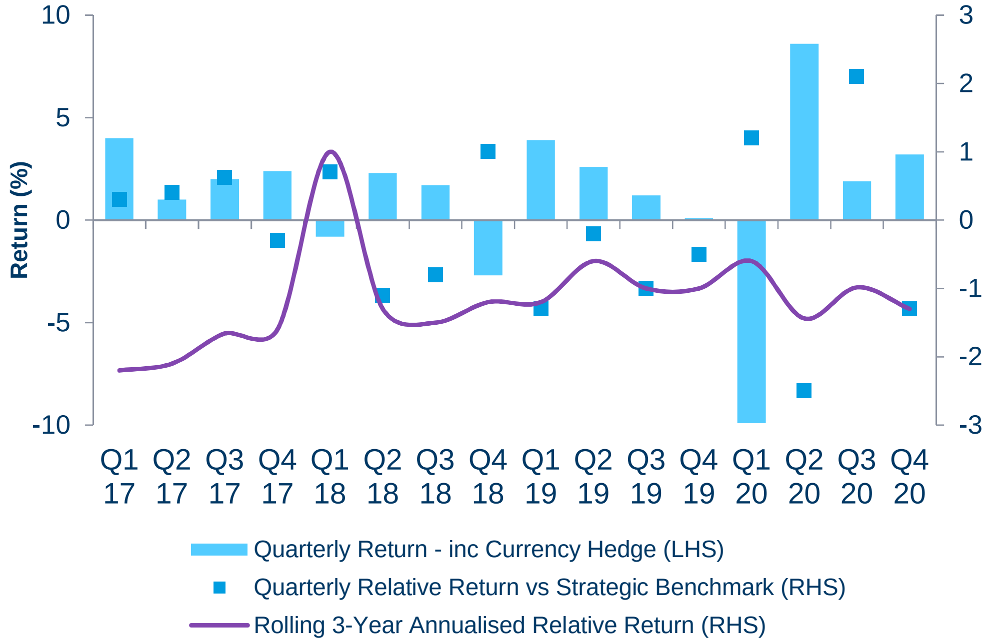
Section 1

Executive Summary

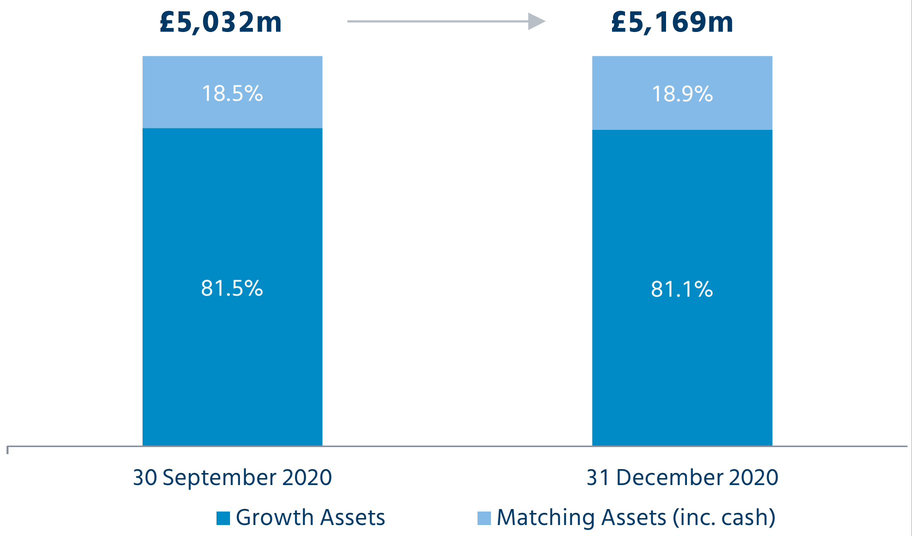
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	3.2	2.9	3.7
Total Fund (ex currency hedge)	2.2	2.8	3.8
Strategic Benchmark **(2)**	4.5	3.0	5.0
Relative (1 - 2)	**-1.3**	**-0.1**	**-1.3**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter, total Fund assets increased from £5,032m to £5,169m. This was driven by strong portfolio performance with almost all mandates capturing market upside.

Active management, in particular the Brunel managed portfolios, and the currency hedging policy, made positive contributions to performance. Underperformance relative to the strategic benchmark is mainly due to the impact of the equity protection strategy, but it is important to note that this has behaved in line with expectations.

At the end of the quarter, the allocations 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.

MERCER

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel 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 £138m over the quarter to 31 December 2020, to £5,169m. Strong performance was seen amongst the equity mandates, as markets were buoyed by positive vaccine developments, and most of the other growth assets within the portfolio also managed to capture a meaningful degree of this upside.

Strategy

- Global (developed) equity returns over the last three years were 10.5% p.a., above the assumed strategic return of 6.8% p.a. from the strategy reviews over 2019. We are positive in our medium-term outlook for developed market equities (over the next one to three years), driven by the backdrop of low bond yields, low expected inflation and pro-growth policies creating a favourable environment.
- Emerging market equities have returned 6.2% 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 emerging Asia region has been less badly affected by the pandemic and benefited from foreign goods demand, which is expected to continue. A more predictable approach by the US to trade under the Biden administration is also a positive.
- High yield bonds returned 5.5% p.a. over the three-year period, ahead of the assumed strategic return of 4.4%, whilst UK corporate bonds were also ahead of their 2.6% target with returns of 5.2% p.a..
- The three-year UK property return of 2.8% p.a. is behind the assumed return of 5.2% p.a., suppressed by ongoing uncertainty regarding the market outlook in light of the last year's events.
- 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, and gilt yields fell back further over the quarter. Fixed interest gilts returned 8.6% p.a. over three years versus an assumed return of 1.5% p.a., whilst index-linked gilts also returned 6.1% 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

- Emerging Market Equity was the strongest performer within the portfolio, whilst the other (global) equity mandates also performed strongly in line with the general market. The credit assets (corporate bonds and MAC) stood out among the other growth assets, delivering strong performance as spreads continued to narrow. The Hedge Fund mandate also performed well, and the DGFs also captured some of the upside in markets.
- The Core Infrastructure mandate stood out among the real asset mandates. UK Property and the Secured Income mandate also contributed to performance, whilst the Renewable Infrastructure mandate was broadly flat. The Overseas Property mandate was the only negative performer within the portfolio, although this reflected Q3 performance as the latest available at the time of writing.
- The value of the Fund's LDI portfolio increased over the quarter, mainly due to a slight uptick in implied inflation and the fall in gilt yields. It remained down over the year however, due to the overall fall in inflation over this period.
- The Global High Alpha Equity mandate has delivered outsized returns over the year – materially ahead of the benchmark, and the other equity mandates in place over this period were also up by double digits. The Hedge Fund and Renewable Infrastructure mandates also stood out, and the credit assets, and Ruffer DGF (until termination), also fared well. All of these mandates achieved their performance objective over this period, except for the Emerging Market mandate.
- 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 Ruffer DGF underperformed over this period (to the termination date), as did the Loomis Sayles MAC and Partners Overseas Property mandates.

Key Points to Note

- The Fund's new strategic benchmark is reflected in this report, having become effective as at 1 April 2020.
- At the start of the quarter, the Fund finalised the increase to its inflation hedge ratio to c.35% of assets.
- The final DGF holdings with Ruffer were redeemed towards the end of the quarter, with the 10% strategic allocation to this asset class now being managed by Brunel through the Diversified Returns mandate.
- 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.

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Section 2

Market Background

MARKET BACKGROUND COMMENTARY

Equity Market Review

Following the strong economic rebound during summer, the global economy started to slow again during the fourth quarter as restrictions gradually returned to all major regions. Nevertheless, the economic impact was not nearly as bad as in early 2020 as businesses were much better prepared this time. Good news regarding vaccine roll-out and positive developments on several political fronts led investors to look beyond the shorter term, and expectations were set towards a major recovery in 2021. This drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

Global equity markets rallied over the quarter, returning 8.5% in sterling terms – the third positive quarter in a row. Many major indices, including the S&P 500, showed mid to high double digit returns for the year. Volatility was higher as markets reacted to a return of pandemic-related restrictions and to major political events including the US election and the final Brexit negotiations. US equities returned 6.8% in sterling terms, as markets focused on the prospect for vaccine roll-outs. European (ex UK) equities returned 9.2% driven by similar dynamics as well as a cyclical recovery in value stocks that are expected to benefit most from a full reopening and have a heavier weight in many European indices. Emerging markets equities returned 11.2%, driven by China's advanced recovery as well as a rebound in some other EM countries, especially commodity producers, that had been lagging for much of the year.

Bond Market Review

The UK yield curve shifted down marginally over the quarter as additional fiscal stimulus as well as monetary accommodation was announced in the UK.

UK real yields shifted down marginally, in line with the small decrease in nominal yields – inflation expectations changed little. The UK Treasury announced the outcome of the RPI consultation confirming that RPI is expected to increase in line with CPIH from 2030.

UK investment grade credit spreads narrowed over the quarter as risk-on sentiment continued.

Currency Market Review

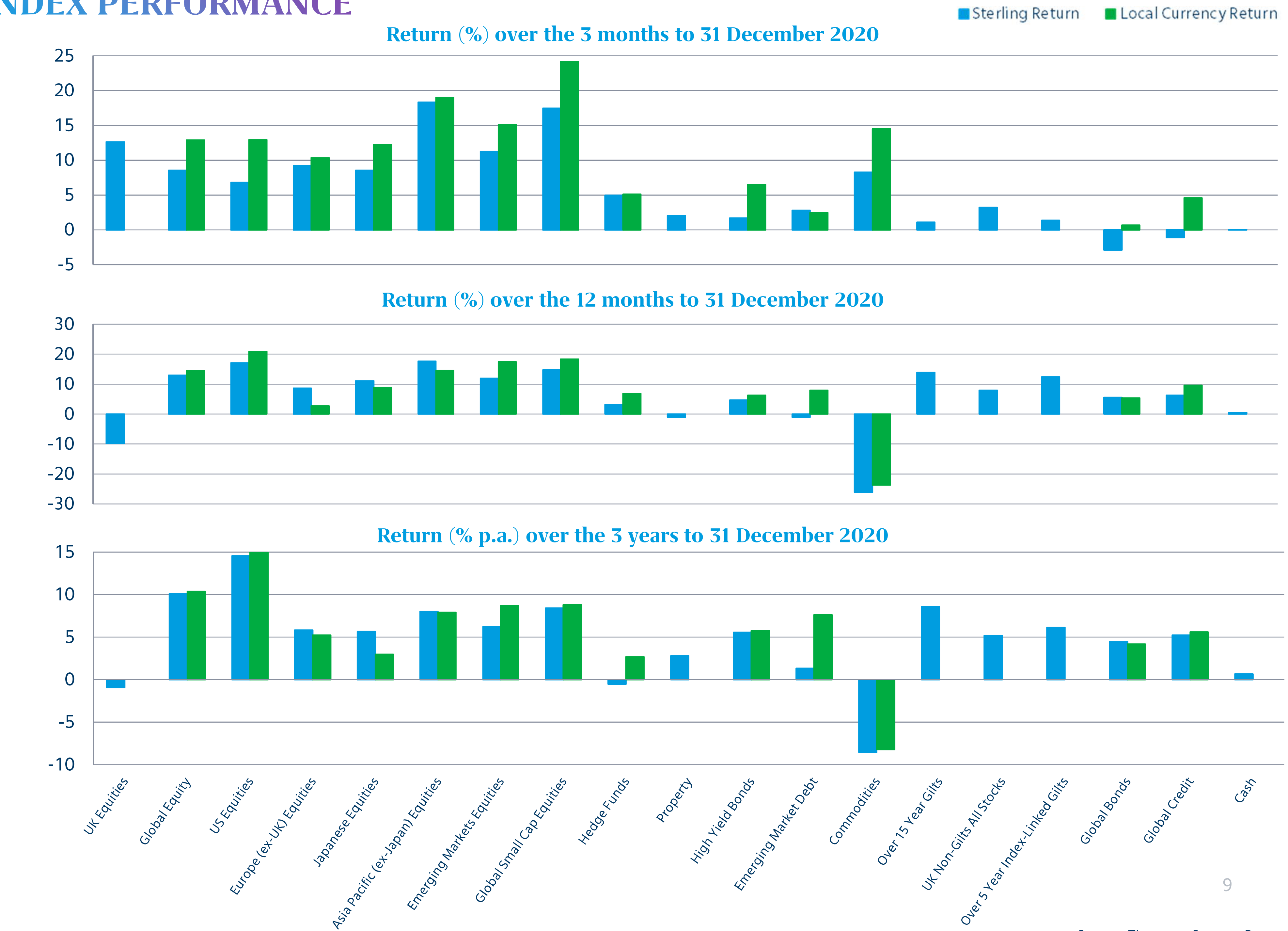
Sterling strengthened against all major developed currencies over the quarter. Against the Dollar, Euro and Yen, this amounted to 5.7%, 1.3% and 3.4% respectively. The Brexit agreement in late December boosted sentiment for sterling at year end as the feared disruptions in trade did not generally materialise.

Commodity Market Review

Commodity markets continued their rebound over the quarter. Expectations of a strong economic recovery gaining pace in the coming year drove demand for cyclical commodities across the board as markets looked beyond the return of COVID-19 restrictions in many countries. Gold was flat as markets were driven by risk-on sentiment that favoured cyclical commodities and energy.

Source: Thomson Reuters Datastream

MARKET BACKGROUND
INDEX PERFORMANCE



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Source: Thomson Reuters Datastream.

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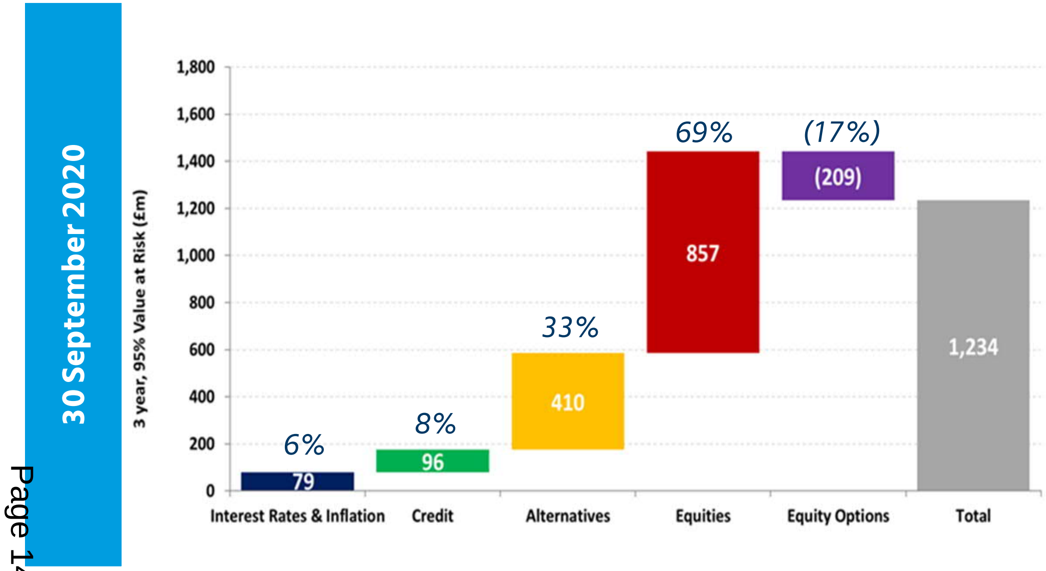
Section 3
Strategic Considerations

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION



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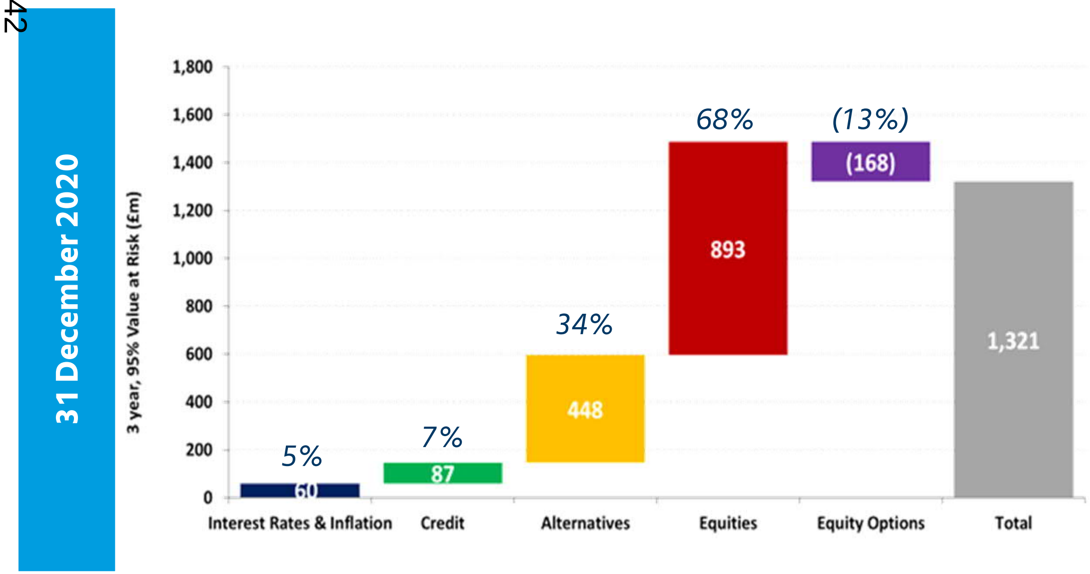

- The two charts to the left illustrate the main risks that the Fund is exposed to on the 2019 funding basis, and the size of these risks in the context of the change in the deficit position.
- The purpose of showing these charts is to ensure there is an awareness of the risks faced and how they change 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 95th 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 31 December 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 **£1.3bn**.
- 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 risen over the quarter**, which is largely attributable to the increase in the asset value and expectations for increased short-term volatility in equity. The upcoming move to a dynamic equity option strategy is expected to significantly reduce the VaR (via an increased offsetting amount from the equity options).

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	10.5	The three year return of global developed equities has been ahead of the assumed strategic return. This increased against last quarter after a Q4 return of 8.2%.
Emerging Market Equity (FTSE AW Emerging)	8.3	6.2	The three year return from emerging market equities remained behind the assumed strategic return, despite a strong Q4 return of 11.2%.
Diversified Growth (SONIA + 4%)	5.7	4.5	DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the SONIA 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	5.5	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	5.2	The three year return of corporate bonds has been ahead of the assumed strategic return. This increased against last quarter after a Q4 return of 3.2%, as spreads continued to narrow.
Property (IPD UK Monthly)	5.2	2.8	Actual property returns fell further behind expected returns. Despite growth in the index of 2.0% over Q4, this was lower than the quarter that fell out of the period. Uncertainty remains around the extent of the impact on property assets from the coronavirus pandemic and lockdowns.
Infrastructure (S&P Global Infrastructure)	6.4	2.3	The infrastructure three year return returned to positive territory over Q4 as the index returned 8.8%. 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	8.6	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 had positive returns over Q4 (though to a lesser extend than the quarter that fell out of the period).
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	1.6	6.1	

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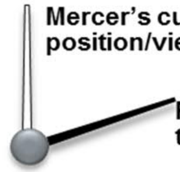
Source: Thomson Reuters Datastream. Returns are in sterling terms.
Strategic assumed returns are from the 2019 strategy review, reflecting the 20 year mean Mercer asset model assumptions as at 31 March 2019.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q1 2021

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



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Equities

LISTED EQUITIES

EMERGING MARKETS

DEVELOPED SMALL CAP

DEFENSIVE EQUITIES

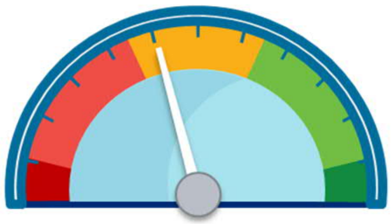
Growth Fixed Income

EM DEBT (LOCAL CURRENCY)

GLOBAL HIGH YIELD

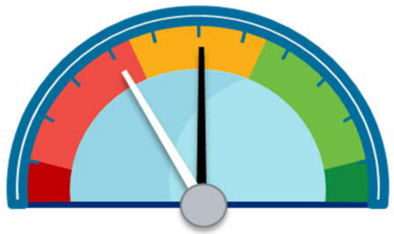
Protective Assets

UK INFLATION-LINKED BONDS



UK SOVEREIGN FIXED INCOME

DEFENSIVE FIXED INCOME



CASH*

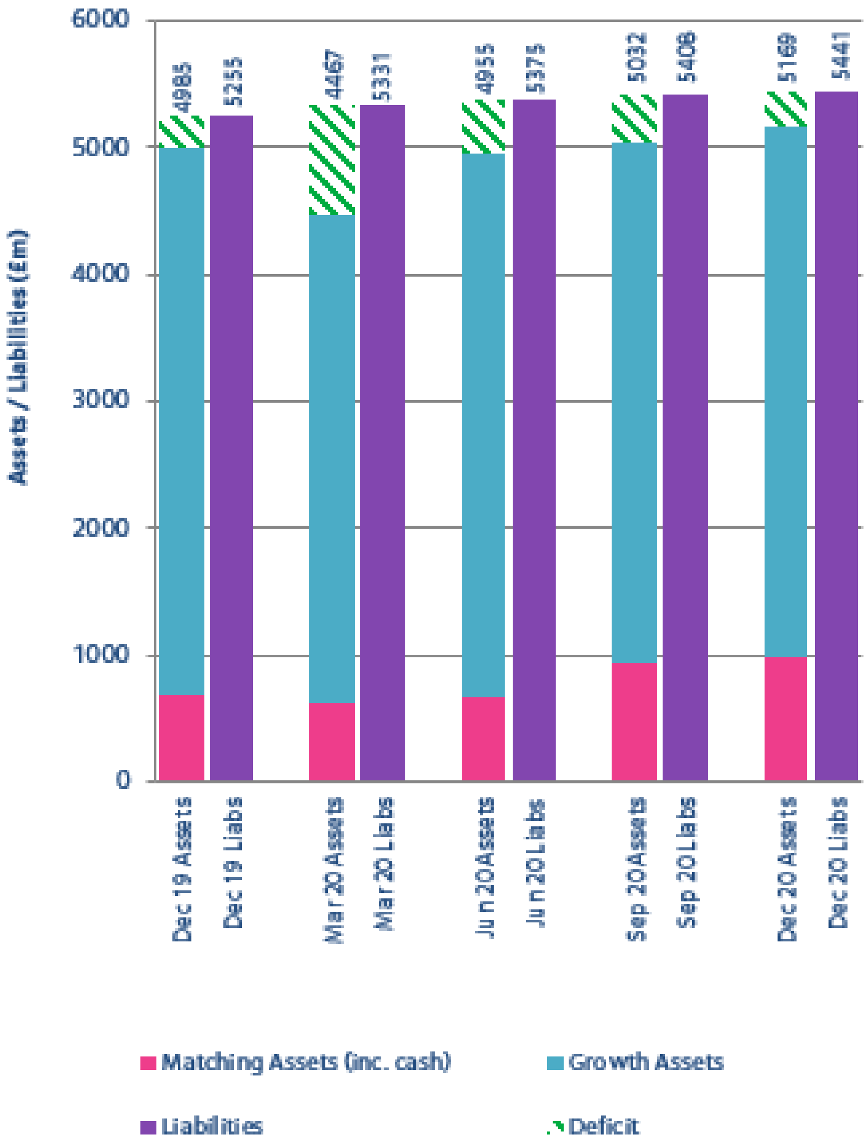
The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset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

Views are as at January 2021

Section 4

Consideration of Funding Level

CONSIDERATION OF FUNDING LEVEL
ATTRIBUTION OF CHANGE IN DEFICIT/SURPLUS



- Based on financial markets, investment returns and net cashflows into the Fund, the deficit was estimated to have reduced further over the fourth quarter of 2020, from £376m to £272m.
- 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.

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CONSIDERATION OF FUNDING LEVEL
ATTRIBUTION OF CHANGE IN FUNDING LEVEL

- The Fund's assets returned 3.2% over the quarter, whilst the Fund's liabilities are expected to have increased by c. 0.6% due to the slight uptick in inflation.
- The combined effect of this, also allowing for cashflow over the period, saw the funding level improve from 93% to 95%.

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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	602,209	657,218	12.0	12.7%	12.0	7	-	17	+0.7%
Global Sustainable Equity	494,014	538,779	9.8	10.4%	10.0	5	-	15	+0.4%
Global Low Carbon Equity	616,893	665,924	12.3	12.9%	10.0	5	-	15	+2.9%
Emerging Market Equity	246,602	280,823	4.9	5.4%	5.5	3	-	9	-0.1%
Diversified Growth Funds	643,596	508,027	12.8	9.8%	10.0	5	-	15	-0.2%
Fund of Hedge Funds*	268,702	265,097	5.3	5.1%	-	No set range			+0.1%
Multi-Asset Credit	302,521	321,648	6.0	6.2%	6.0	3	-	9	+0.2%
Property	431,097	415,310	8.6	8.0%	7.5	5	-	10	+0.5%
Secured Income	109,304	133,870	2.2	2.6%	10.0	5	-	15	-7.4%
Core Infrastructure	345,475	359,670	6.9	7.0%	5.0	2.5	-	7.5	+2.0%
Renewable Infrastructure	40,186	48,089	0.8	0.9%	5.0	2.5	-	7.5	-4.1%
Private Debt	-	-	-	-	5.0	0	-	7.5	-
Corporate Bonds	133,229	140,422	2.6	2.7%	2.0	No set range			+0.7%
LDI & Equity Protection	625,883	496,882	12.4	9.6%	12.0	No set range			-2.4%
Cash**	171,951	337,490	3.4	6.5%	-	0	-	5	+6.5%
Total	5,031,696	5,169,488	100.0	100.0	100.0				

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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.
Totals may not sum due to rounding.
*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 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	222,761		240,876	4.4	4.7
BlackRock	Corporate Bonds	133,229		140,422	2.6	2.7
BlackRock	LDI & Equity Protection	625,883		496,882	12.4	9.6
BlackRock	ETF	45,975		48,603	0.9	0.9
Brunel	Global Sustainable Equity	494,014		538,779	9.8	10.4
Brunel	Global High Alpha Equity	358,018		390,871	7.1	7.6
Brunel	Global Low Carbon Equity	616,893		665,924	12.3	12.9
Schroder	Global Equities	7,321		7,135	0.1	0.1
Brunel	Emerging Market Equity	246,602		280,823	4.9	5.4
Brunel	Diversified Returns Fund	493,104	-829	508,027	9.8	9.8
Ruffer	DGF	150,492	-156,054	0	3.0	0.0
JP Morgan	Fund of Hedge Funds	268,702		265,097	5.3	5.1
Loomis Sayles	Multi-Asset Credit	302,521		321,648	6.0	6.2

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

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FUND VALUATIONS
VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Schroder	UK Property	223,742		225,963	4.4	4.4
Partners	Property	207,355	-12,618	189,346	4.1	3.7
Brunel	Secured Income	109,304	22,410	133.870	2.2	2.6
IFM	Infrastructure	345,475		359,670	6.9	7.0
Brunel	Infrastructure	40,186	7,710	48,089	0.8	0.9
Record Currency Management*	Currency Hedging	19,069		71,968	0.4	1.4
Internal Cash	Cash	120,701	285,909	234,945	2.4	4.5
Total		5,031,696	-24,273	5,169,488	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.
*Valuation includes the collateral holdings for the currency overlay.

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Section 6
Performance Summary

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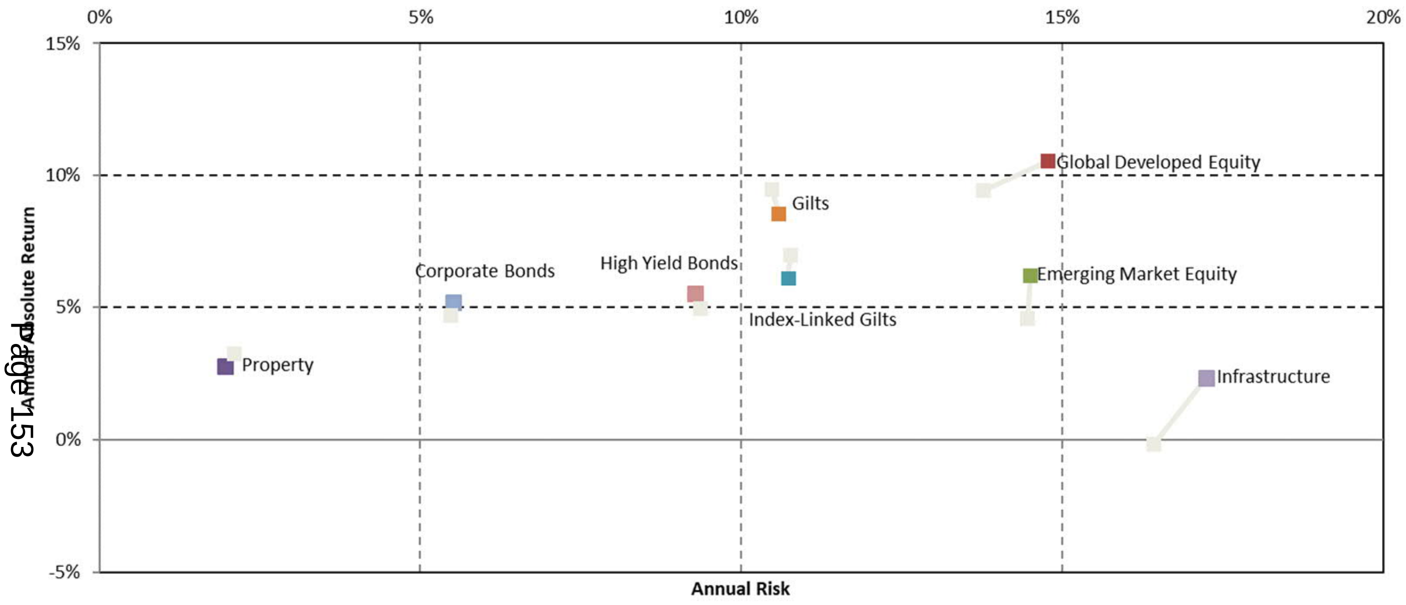
MANAGER MONITORING
RISK RETURN ANALYSIS

3 Year Risk vs 3 Year Return to 31 December 2020



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 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, Bonds and Infrastructure saw increases in observed returns over the three-year period, whilst Property and Gilts fell back slightly.
- Changes in associated volatilities were minimal for most asset classes, except for Global Developed Equity and Infrastructure which saw more notable increases.

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MANAGER MONITORING
MANAGER PERFORMANCE TO 31 DECEMBER 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	8.1	7.8	+0.3	11.8	12.3	-0.4	10.8	10.2	+0.5	-	Target met
BlackRock Corporate Bonds	5.4	5.4	0.0	12.5	12.5	0.0	7.6	7.6	0.0	-	Target met
BlackRock LDI	2.4	2.4	0.0	-13.5	-13.5	0.0	-2.6	-2.6	0.0	-	Target met
Brunel Global High Alpha Equity	9.2	7.9	+1.2	28.2	12.9	+13.6	N/A	N/A	N/A	+2-3	N/A
Brunel Global Sustainable Equities	9.1	8.6	+0.5	N/A	N/A	N/A	N/A	N/A	N/A	+2	N/A
Brunel Passive Low Carbon Equity	7.9	8.0	-0.1	13.3	13.5	-0.2	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	13.9	13.3	+0.5	13.9	15.0	-1.0	N/A	N/A	N/A	+2-3	N/A
Brunel Diversified Returns Fund	3.0	0.0	+3.0	N/A	N/A	N/A	N/A	N/A	N/A	+4-5	N/A
Ruffer DGF	3.7	1.3	+2.4	8.9	5.4	+3.3	3.6	5.7	-2.0	-	Target not met
JP Morgan FoHF	6.8	0.8	+6.0	17.0	4.1	+12.4	8.7	4.9	+3.6	-	Target met
Loomis Sayles MAC	6.3	1.0	+5.2	7.1	4.3	+2.7	4.2	4.6	-0.4	-	Target not met
Schroder UK Property	2.4	2.1	+0.3	-0.9	-1.0	+0.1	2.6	2.3	+0.3	+1	Target not met
Partners Overseas Property*	-2.6	2.5	-4.9	-6.3	10.0	-14.8	2.7	10.0	-6.7	-	Target not met
Brunel Secured Income	2.0	0.1	+1.9	0.5	0.6	-0.1	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure**	4.0	0.7	+3.3	0.4	4.0	-3.5	12.0	4.6	+7.0	-	Target met
Brunel Renewable Infrastructure	0.1	0.1	0.0	14.8	0.6	+14.1	N/A	N/A	N/A	+4	N/A

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Since inception performance for Partners, which was the largest underperformer over the three year period, has been more favourable at 5.7% p.a.*

- Source: Investment Managers, Custodian, 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.**
- **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.
- *Partners performance is to 30 September 2020 as this is the latest date that this is available. The mandate's inception was in 2009.
- **IFM returns are in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.

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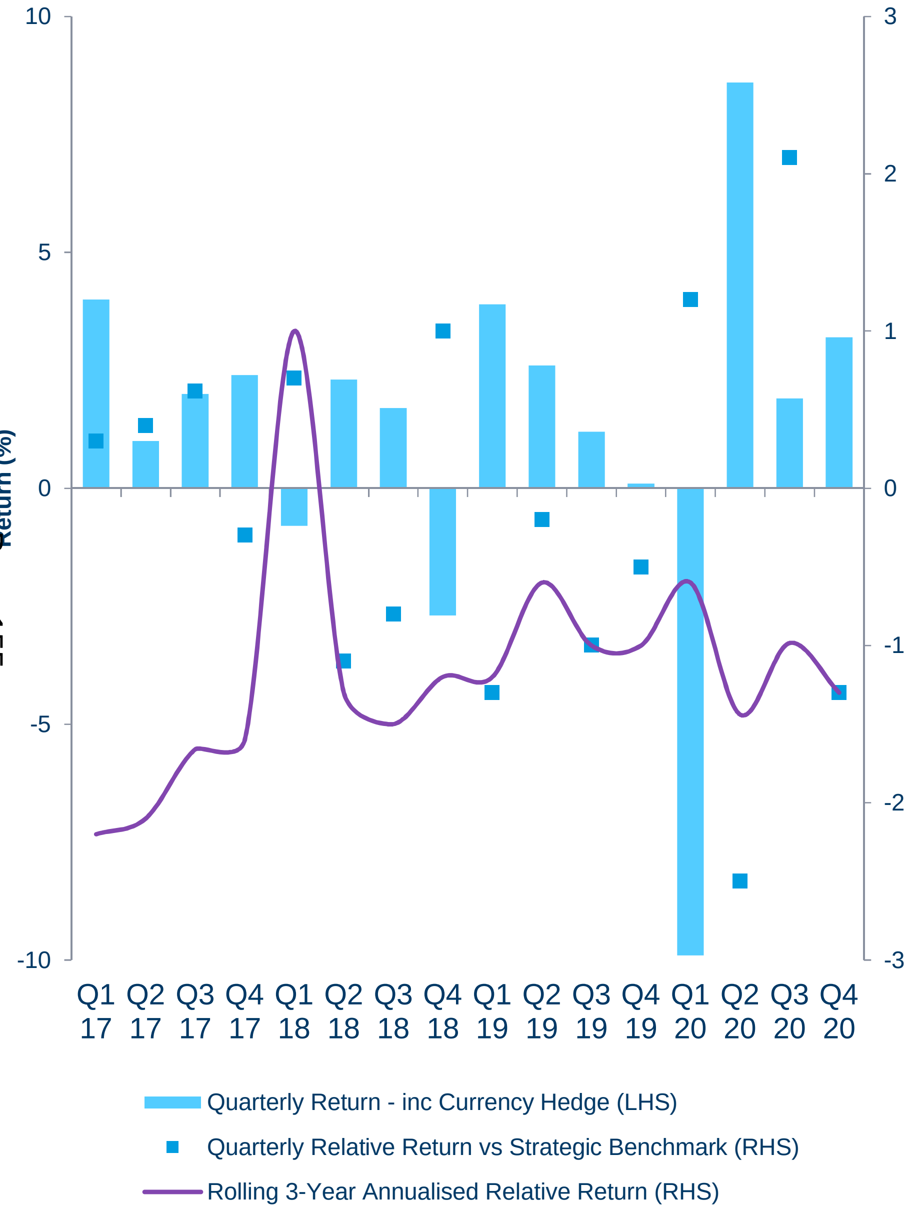
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



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	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund **(1)**	3.2	2.9	3.7
Total Fund (ex currency hedge)	2.2	2.7	3.8
Strategic Benchmark **(2)** (ex currency hedge)	4.5	3.0	5.0
Relative (1 - 2)	**-1.3**	**-0.1**	**-1.3**

- Over the quarter, total Fund assets increased from £5,032m to £5,169m. This was driven by strong portfolio performance with almost all mandates capturing market upside.
- Active management, in particular the Brunel managed portfolios, and the currency hedging policy, made positive contributions to performance. Underperformance relative to the strategic benchmark is mainly due to the impact of the equity protection strategy, but it is important to note that this has behaved in line with expectations.
- At the end of the quarter, the allocations 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.

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Appendix

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%
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI	+4%
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	-

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.

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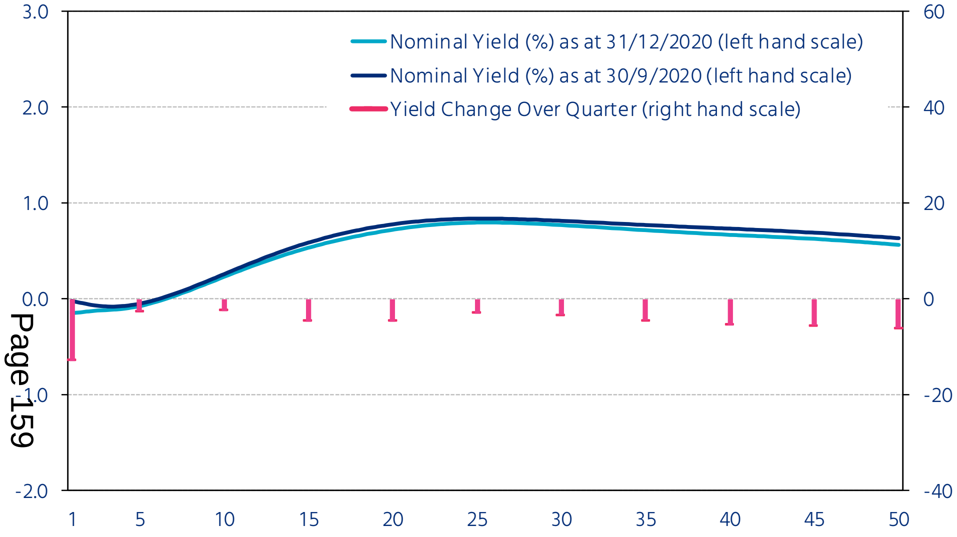
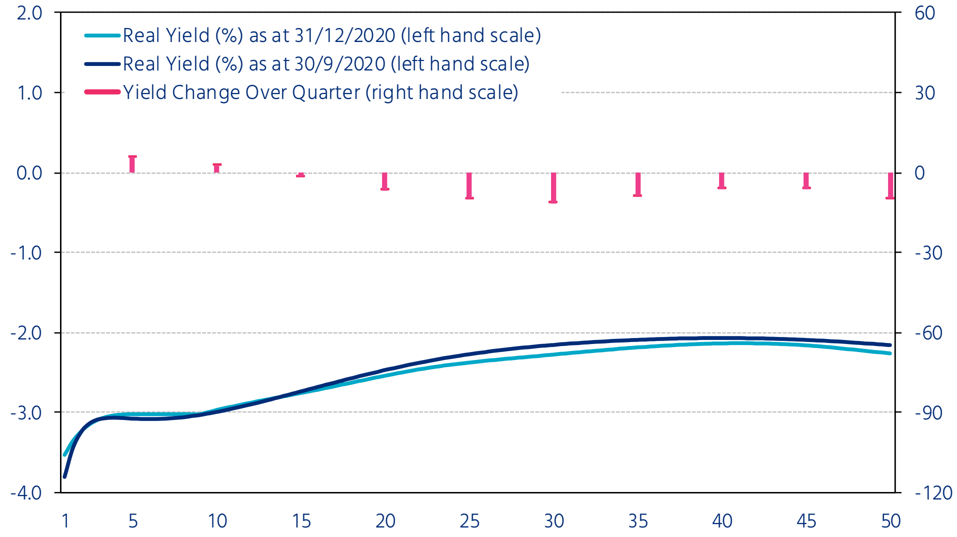
CHANGES IN YIELDS

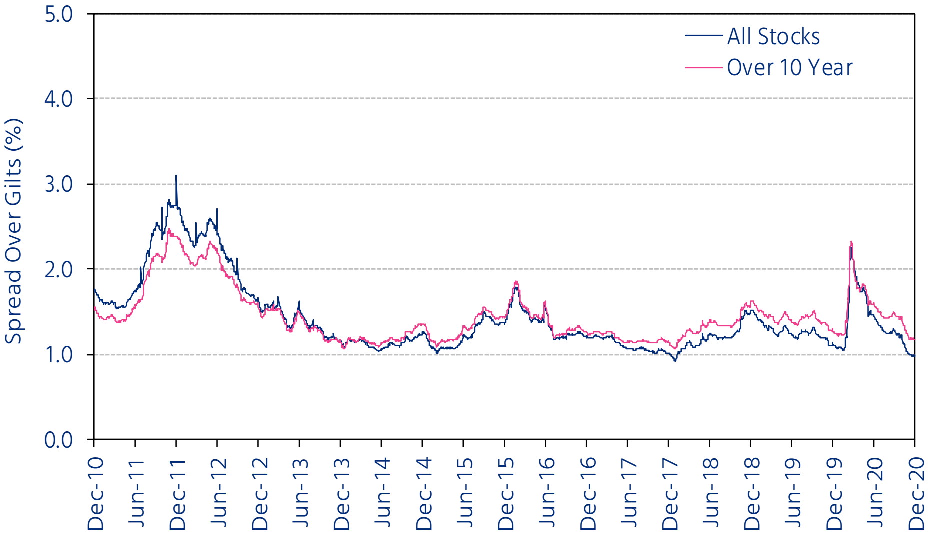
- The UK yield curve shifted down marginally over the quarter as additional fiscal stimulus as well as monetary accommodation was announced in the UK.
- UK real yields shifted down marginally, in line with the small decrease in nominal yields – inflation expectations changed little. The UK Treasury announced the outcome of the RPI consultation confirming that RPI is expected to increase in line with CPIH from 2030.
- UK investment grade credit spreads narrowed over the quarter as risk-on sentiment continued.



Source: Mercer.



Source: Mercer.



Source: Thomson Reuters Datastream.

Asset Class Yields (% p.a.)	31 Dec 2020	30 Sep 2020	31 Dec 2019	31 Dec 2018
Over 15 Year Gilts	0.67	0.71	1.25	1.76
Over 5 Year Index-Linked Gilts	-2.37	-2.29	-1.84	-1.58
Sterling Non Gilts All Stocks	1.23	1.54	2.00	2.75

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Quarterly Engagement Report

October-December 2020

Local Authority Pension Fund Forum

Climate goals, BHP, Vale, Standard Chartered, HSBC

CLIMATE EMERGENCY

It is the fifth anniversary of the Samarco dam collapse in Mariana, Brazil

LAPFF meets AngloAmerican and Glencore chairs on stakeholder engagement

Objective: Part of LAPFF's strategy to make progress on tailings dam safety has been to meet company chairs to explain the Forum's perspective on the importance of speaking meaningfully with affected communities. The Forum had managed to speak to the chairs of Vale and BHP but had yet to meet with the chairs of AngloAmerican and Glencore on this issue.

Achieved: Over the last quarter, LAPFF Chair, Cllr Doug McMurdo, spoke with both AngloAmerican Chair, Stuart Chambers, and Glencore Chair, Tony Hayward, on this issue. Both chairs recognised the importance of engaging effectively with affected communities but did not provide much detail on how their respective companies were going about this engagement.

"The more I discuss joint ventures with mining companies, the more concerned I become. These entities seem to mask significant governance failings that more often than not lead to significant ESG failings. We need to figure out a way forward on this issue."

Cllr Doug McMurdo

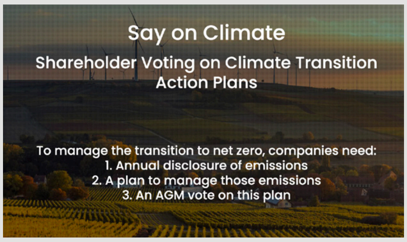
Cllr McMurdo noted that the Forum had held a webinar on 5 November to remember the fifth anniversary of the Samarco dam collapse in Mariana, Brazil and to highlight the fact that reparations thus far have been woefully inadequate. He also raised concerns about the role of joint ventures in contributing to poor environmental, social, and governance standards in mining projects. While there was general agreement that joint ventures were problematic, the different companies had different perspectives on these structures, which might account for the dissonance in running them.

As an added dimension to this work, Cllr McMurdo also met with a number of Brazilian investors, including Previ, the largest public pension fund in Brazil, to test their appetite for engaging with the

CLIMATE EMERGENCY

SAY ON CLIMATE

In December, LAPFF came out in support of the 'Say on Climate' initiative which aims to secure a 'say on climate' vote at a wide number of company AGMs. This followed a meeting with Sir Chris Hohn who earlier this year had been successful in securing an annual vote at the Spanish airport group Aena's AGM on its climate transition plan. Sir Chris runs the Children's Investment Fund Management which is associated with the Children's Investment Fund Foundation. The difference between this initiative and, for example, Climate Action 100+ is that it is not exclusive to high carbon-emitting companies but can be applied to all listed companies. Recommended actions also include advocating for a mandatory 'say on climate' which would mean it would be on every company AGM ballot. Further information can be found at www.sayonclimate.org.



affected communities. LAPFF found in its Rio Tinto engagement on Juukan Gorge that engaging with both local communities and local investors in Australia helped to galvanise a unified voice and support for change. The Forum is looking to build a similar coalition amongst Brazilian communities and investors.

These engagements fit within the continuing collaborative efforts between investors through another Church of England-led initiative on engagement with Indigenous communities. Over 70 letters were sent to mining companies globally to request improved disclosure on stakeholder engagement and governance. The results are now being collected to determine next steps.

In Progress: The Forum has yet to meet with Rio Tinto on the Juukan Gorge incident, despite additional requests to this end. Rio Tinto has granted investors meetings on climate change and general governance at board level but continues to push back on human rights and stakeholder engagement discussions. Having heard from community representatives in both the US and Mongolia on Rio Tinto's conduct, it is becoming clear that there are systemic failings in the company's ESG assessment processes that LAPFF will want to discuss when a meeting is finally granted.

It is also increasingly clear that joint ventures need more investor attention. Apart from the fact that they facilitate governance gaps, it was apparent from this quarter's meetings that the investors involved do not have a common vision for their operation or how to address ESG issues through these structures. This must change quickly for progress to be made.

The Glencore meeting also focused largely on the company's announcement that it would be exiting coal and giving a greater focus to base metals. It will be important to follow up with the company to see how its strategy is being implemented, especially as the company is forecasting an increase in coal production to 2025 and with a new CEO, Gary Nagle, who is currently Head of Coal Assets, taking over from Ivan Glasenberg in the first part of next year.

Financing a Just Transition Alliance

Cllr Rob Chapman, LAPFF vice chair, joined the first meeting of the Alliance which aims to translate financial sector commitments into real world impact. The Alliance aims to build on positive momentum to encourage tangible action and profile promising case studies. Co-ordinated by the London School of Economics, a report will be produced setting out recommendations in time for COP 26.

ArcelorMittal and National Grid CA100+ Engagements Continue

Objective: to seek evidence of progress in the period to 2030 against the companies' net zero targets and to encourage board consideration of putting climate transition plans to shareholders for approval.

Achieved: Cllr Chapman, LAPFF vice-chair, met with Aditya Mittal, ArcelorMittal's Finance Director and Bruno Lafont, the lead independent director, together with representatives from the other two lead Climate Action 100+ (CA100+) investors. It was a productive discussion with Aditya Mittal committing to look at providing appropriate hybrid arrangements for investors to participate in the annual meeting and for his presentation to the meeting to include detail on the zero-carbon transition with time being allowed for discussion on this. He also spoke about exploring partnerships with other companies to work towards using renewable power in manufacturing green steel. The company's progress in the use of hydrogen in steel-making to decarbonise the process, has been the issue raised most consistently in meetings with company representatives. In the 'Climate Action in Europe' report produced during the year, it was notable that this technology was separated out from the other 'smart carbon' technologies with the company announcing this quarter that they will produce the first steel using hydrogen from renewables in 2020.

At National Grid, LAPFF has long

LAPFF HOLDS WEBINAR SERIES TO REPLACE THE ANNUAL CONFERENCE

Presentations at the webinars included an overview from David Enrich, New York Times business investigations editor of his new book Dark Towers. Also expert speakers presented on the Opioid Crisis, Managing climate change in a pension fund portfolio, Just Transition, Financial Reporting on climate, an update from the communities affected by the Tailing Dam disasters, the COVID crisis and workers and Workforce Engagement.

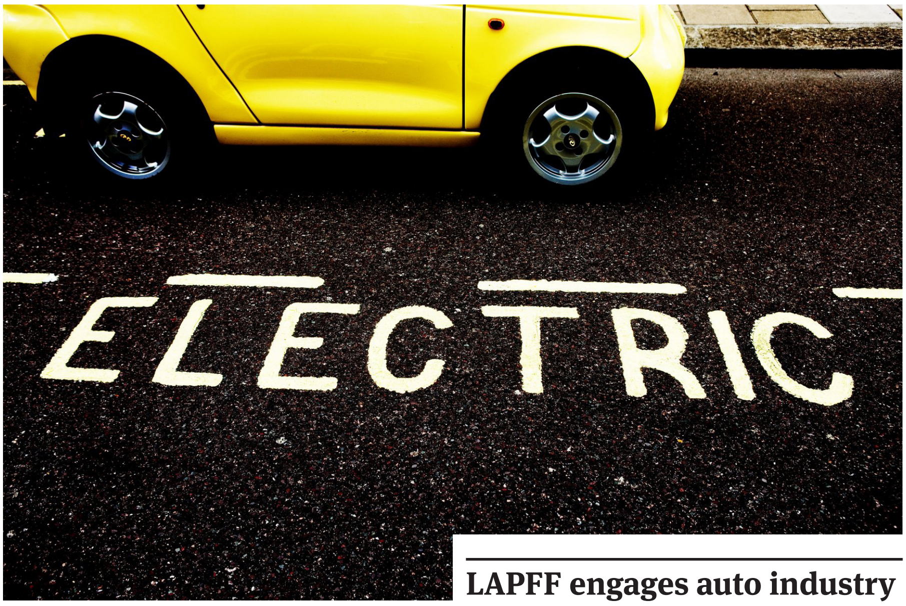
The Chair and Vice Chair also presented the LAPFF 2020 Annual report to the membership and detailed engagements undertaken on behalf of LAPFF.

COMPANY ENGAGEMENT

been pushing for group-wide net zero targets to be set. Although the company has been signed up to the science-based target initiative for some time, no scope 3 targets for the group had been set. At an ESG investor event, the company announced that it has set an interim target of 20% reduction in scope 3 emissions by 2030. LAPFF asked the chair if he would consider putting the net zero transition plan to vote at the next AGM. The answer was not in the affirmative, but will be something to pursue with Paula Rasput Reynolds who will replace Sir Peter Gershon as chair in 2021. After this event, Cllr Chapman met with Sir Peter and followed up on the possibility of the board putting a climate transition plan to shareholders at the AGM.
In Progress: Discussions continued with both ArcelorMittal and National Grid on the CA100+ benchmarking process. Some of the issues raised will be addressed in ArcelorMittal's second group climate report which seems likely to be issued in January 2021. Discussions with National Grid referred to the company's proposed Responsible Business Review to be published annually and how elements of the CA100+ benchmarking process might map into this and investors' ability to measure progress towards net zero.

LAPFF Approaches HSBC to Discuss Upcoming Climate Resolution

Objective: As was the case with the Barclays resolution this year, ShareAction has again approached LAPFF about co-filing a shareholder resolution with a UK bank. This time, HSBC is the target. The resolution calls on HSBC to 'reduce financed emissions from [its] portfolio of customers to net zero by 2050 or sooner. The Company should report on progress against its targets and strategy in its annual report on an annual basis, starting from 2021 onwards, including a summary of the framework, methodology, timescales and core assumptions used.'
Achieved: LAPFF's policy is to engage with companies prior to taking a view on whether or not to support a resolution, so a meeting with HSBC was requested in December to discuss the issue.
In Progress: This meeting will be pursued again in the new year.



LAPFF Engages Standard Chartered on Climate Finance

Objectives: LAPFF met with Standard Chartered to seek evidence of progress in the period to 2030 against the company's net zero targets and request the 2021 AGM be opened up to virtual attendance
Achieved: A virtual 'ESG' meeting provided access to the chairs of all board committees as well as the chair, José Viñals. Mr Viñals was responsive to both LAPFF questions. On progress to 2030, Standard Chartered has committed to net-zero emissions across its global properties by 2030 by sourcing energy from renewable sources and pursuing energy efficiency measures. For scope 3, he explained how the company is working with clients to measure, monitor and reduce emissions in order to ensure alignment of the portfolio with Paris goals. There are clear standards for non-compliance set but the bank has also committed to providing funding, with significant amounts for renewables and clean-tech projects over the next five years.
In Progress: In response to the question about running a 'hybrid' AGM, by allowing virtual attendance, Mr Viñals noted that the 2020 AGM had prepared for this by asking for a change in the articles of association. The board is reflecting on how this would work, including reflecting on the virtual ESG meeting itself and would 'try to do something that makes sense'.

LAPFF engages auto industry on climate

Objective: During 2020, LAPFF called on the UK government to ban sales of all new petrol, diesel and hybrid cars by 2025. Since then, the Government has confirmed that it will ban the sale of all new petrol and diesel cars by 2030, representing a significant 'real world' outcome in terms of carbon reduction impact. LAPFF has sought to engage with the auto industry to ascertain how car makers will be approaching the challenges of electrifying their fleets and what their plans are to reduce carbon emissions.
Achieved: So far, LAPFF has written to six vehicle manufacturers regarding these issues, and the Forum recently met with BMW. BMW has openly set science based targets for its Scope 1 & 2 emissions but has yet to set such targets for Scope 3 emissions. The company assured LAPFF that it is ready to meet a rise in demand for electric vehicles and that its own operations will be carbon neutral by next year by offsetting its carbon emissions in a number of ways. They have also ensured that all of their battery cell suppliers use green energy and are looking at all aspects of supply to reduce CO2 emissions.
In Progress: LAPFF has meetings organised for early 2020 with two other vehicle manufacturers to discuss these issues. LAPFF hopes to get manufacturers that haven't already, to set science based targets for their scope 3 emissions and also wants to ensure that these companies are set up sufficiently to deal with the electrification of their fleets.

COMPANY ENGAGEMENT

Protesters demonstrate outside the Grosvenor House Hotel whilst arms dealers, MPS, and military personnel hold a black tie dinner.

LAPFF Attends BAE Briefing

Objective: About a year and a half ago, the Forum began an engagement with widely held defence contractors to discuss their arms policies given the use of their weapons for the war in Yemen. One of the companies engaged was BAE. The company had intended to hold an investor meeting just as the Covid pandemic broke, so decided to hold a webinar later in the year in lieu of a physical meeting. Cllr McMurdo attended to see if there were any updates on the initial meeting from August 2019.

Achieved: When Cllr McMurdo met with BAE, he raised the question of engagement with human rights. However, the company appears to continue to focus on staff issues as its primary indicator of performance on the 'S' element of ESG. While it is understandable that the company is in a difficult position with government arms contracts, it is worrying that it appears to barely acknowledge the human rights implications of its arms contracts.

In Progress: In the first instance, it seems that raising awareness within the industry of investor concerns about human rights is necessary. Perhaps further progress can be made once this has been done. Post-Covid, the Forum will also explore whether it might be fruitful to engage with government on this issue.

Israeli-Palestinian engagements underway

Objective: A number of LAPFF funds were approached by both pro-Israeli and pro-Palestinian groups about investments in the Israeli-Palestinian territories. Consequently, the Forum cross-referenced the companies of concern with a UN list of companies raising concerns based on their operations in this area to determine a preliminary list of companies with which to engage on this issue.

Achieved: The first engagements have taken place with three of the seventeen companies approached on this issue. So far, there has been pushback on two fronts from all three companies. Motorola, which the Forum has approached in the past, merely provided its standard annual report text in response to a meeting request and has not yet granted a meeting of any sort. Altice, a French telecommunications company, and Israeli Discount Bank have both pushed back on LAPFF's request for human rights impact assessments in respect of their operations in the territories on the grounds that the UN list is political and it would do no good to undertake these assessments because existing legal requirements ensure human rights compliance in any case. Altice did engage through a meeting, though, while Israeli Discount Bank submitted only a written response.

In progress: Forum members continue to be approached on this seemingly intransigent issue, and LAPFF will continue to engage with the companies approached. Although the Forum is not likely to solve this political problem, it is hoped that the companies engaged will come to understand the importance of conducting human rights impact assessments both for their own operations and in order to provide more helpful investment information to shareholders.

LAPFF IOPA Engagement Continues

Objective: LAPFF originally joined the Investors for Opioid and Pharmaceutical Accountability (IOPA) to combat the opioid epidemic in the US. However, since the Covid pandemic arose, the investor coalition has also engaged with pharmaceutical companies on their approaches to Covid vaccines.

Achieved: IOPA's Meredith Miller spoke at the LAPFF webinar series in early December and noted the dire situation on opioids in the US. Forum representatives also regularly attend IOPA meetings and have flagged shareholder resolutions stemming from the initiative.

In Progress: LAPFF will continue to notify members of co-filing opportunities as they arise.

COMPANY ENGAGEMENT

CONSULTATION RESPONSES

A letter on climate change was sent to the International Energy Authority (IEA) expressing LAPFF's concerns about carbon capture and storage (CCS). The letter points out the unproven record and technical lack of viability of CCS, coupled with the drastically reduced price of renewables in the last couple of years in questioning the IEA's position in support of CCS.

The CCS issue is of growing concern as company reporting in many of the hard-to-abate sectors appears to promote the technology and a meeting in December with the Global CCS Institute (GCCSI) revealed the extent of unsubstantiated and misleading material being shared with investors.

MEDIA COVERAGE

SAY ON CLIMATE:

Reuters UK local government pension group seeks mandatory climate votes

The Independent Why companies should give their investors a say on climate as well as bosses pay

Nasdaq UK local government pension group seeks mandatory climate votes

LSE (London South East) UK local government pension group seeks mandatory climate votes

IPE Ethos includes say on climate vote in guidelines

OTHER:

Telegraph Pension funds say accounting watchdog is compromised

Reuters Rio Tinto Names Sausholm as CEO in surprise pick after cave destruction

NETWORKS AND EVENTS

LAPFF Webinars

In addition to these end of year webinars, the Forum also held webinars with community members affected by mine operations in the US, Brazil, and Mongolia.

Once the world's fourth largest lake, the Aral has shrunk so much that it has now split into two separate bodies of water. [The United Nations Development Programme (UNDP) has been running an Aral Sea Programme since 1995, focusing mainly on water resources management, small business development, humanitarian assistance and a social and health programme as the ecological disaster of the dying sea has brought

VALUING WATER TASK FORCE

As a founding member of the Valuing Water Task Force, LAPFF attended the second task force meeting at the end of November. The purpose of the meeting was to provide feedback on the global impact assessment currently being undertaken by a team at the University of Saskatchewan. Task Force members discussed the importance of highlighting the link between water resources and climate change as well as the need for a solution-orientated approach. Members also discussed how best to encourage asset allocation to the future of water security. Part of the allocation discussion focussed on the potential scope and methods for harmonizing water risks and financial materiality. Ultimately, the methodologies of both the cost of inaction and the shadow price on water were identified as a potentially meaningful way of undertaking financial materiality assessments.

LGIM Stakeholder Webinar

A Forum representative also attended Legal and General Investment Management's annual stakeholder forum, held this year via video conference. The idea behind the event is to highlight upcoming issues for LGIM to consider in its voting and investing activities. This year, topics covered included anti-microbial resistance, climate, and human capital management.

CHRB and Covid Webinars

Forum representatives also attended a number of human rights-related webinars, including one on the impact of Covid on human rights and the launch of this year's Corporate Human Rights Benchmark (CHRB). This year's benchmark covers the auto industry for the first time with auto companies performing very poorly.

IIGCC Weekly Meetings

LAPFF continues to be represented in weekly meetings co-ordinated by IIGCC around the shareholder resolution filing process for CA100+. Information sharing at this group helps in engagements with chairs and joint-CA100+ leads on putting net zero transition plans to shareholders. A meeting was also held with JustShare, a south African NGO, who has had a proposed shareholder resolution on climate refused by the energy and chemicals company Sasol, despite other listed South African companies having tabled similar resolutions over the previous 15 years.

COMPANY PROGRESS REPORT

145 companies engaged over the quarter during 172 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
AFRICAN RAINBOW MINERALS LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
AGNICO EAGLE MINES LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
AIR LIQUIDE SA	Received Correspondence	Climate Change	Moderate Improvement	Non-Exec Director	FRA
AIRBUS SE	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	NLD
AK ALROSA PAO	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	RUS
ALCOA CORPORATION	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	USA
ALSTOM SA	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	FRA
ALTICE EUROPE NV	Meeting	Human Rights	Dialogue	Chairperson	NLD
ALUMINUM CORPORATION OF CHINA LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
ANGLO AMERICAN PLATINUM LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
ANGLO AMERICAN PLC	Meeting	Governance (General)	Dialogue	Chairperson	GBR
ANGLOGOLD ASHANTI LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
ANTOFAGASTA PLC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	GBR
AP MOLLER - MAERSK AS	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DNK
ARCELORMITTAL	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	LUX
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process	Specialist Staff	LUX
ASTRAZENECA PLC	Meeting	Other	Satisfactory Response	Specialist Staff	GBR
B2GOLD CORP.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
BAE SYSTEMS PLC	Meeting	Governance (General)	Dialogue	Chairperson	GBR
BANK HAPOALIM B M	Sent Correspondence	Human Rights	Dialogue	Chairperson	ISR
BANK LEUMI LE-ISRAEL BM	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
BARRICK GOLD CORPORATION	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
BASF SE	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DEU
BAYERISCHE MOTOREN WERKE AG	Meeting	Environmental Risk	Change in Process	Specialist Staff	DEU
BEZEQ THE ISRAELI TELECOMMUNICATION CORP LTD	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
BHP	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
BHP GROUP PLC	Meeting	Human Rights	Dialogue	Specialist Staff	GBR
BOLIDEN AB	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	SWE
BOOKING HOLDINGS INC.	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	USA
BP PLC	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	GBR
CHINA MOLYBDENUM CO., LTD.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
CHINA NORTHERN RARE EARTH HIGH-TECH CO., LTD.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
CHINA SHENHUA ENERGY CO LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
CITIGROUP INC.	Resolution Filed	Climate Change	Dialogue	Chairperson	USA
COAL INDIA LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	IND
COMPAGNIE DE SAINT GOBAIN	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	CHE
CONTINENTAL AG	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DEU
CRH PLC	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	IRL
DAIMLER AG	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DEU
DELEK GROUP LTD	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
DIXONS CARPHONE PLC	Sent Correspondence	Environmental Risk	Dialogue	Chairperson	GBR
E.ON SE	Received Correspondence	Climate Change	Dialogue	Specialist Staff	DEU
EDF (ELECTRICITE DE FRANCE) SA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	FRA
ENDESA SA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	ESP
ENEL SPA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	ITA
ENGIE SA.	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	FRA
ENI SPA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	ITA
EQUINOR ASA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	NOR

COMPANY PROGRESS REPORT

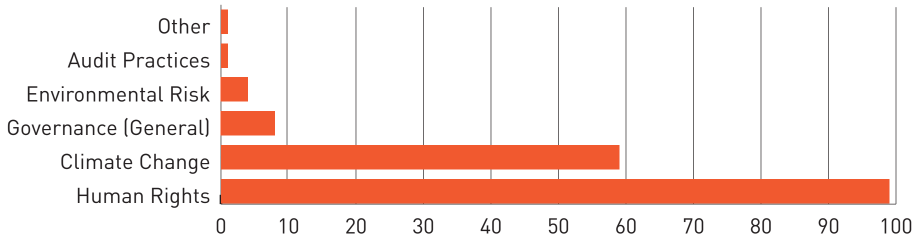
EVOLUTION MINING LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
EVRAZ PLC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	GBR
EXPEDIA GROUP INC	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	USA
EXXON MOBIL CORPORATION	Received Correspondence	Climate Change	Dialogue	Specialist Staff	USA
FIAT CHRYSLER AUTOMOBILES N.V.	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	NLD
FIRST INTERNATIONAL BANK OF ISRAEL	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
FIRST QUANTUM MINERALS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
FORD MOTOR COMPANY	Sent Correspondence	Climate Change	Awaiting Response	Chairperson	USA
FORTESCUE METALS GROUP LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
FREEPORT MCMORAN INC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	USA
GANFENG LITHIUM CO., LTD.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
GENERAL MILLS INC	Sent Correspondence	Human Rights	Dialogue	Chairperson	USA
GENERAL MOTORS COMPANY	Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
GLENCORE INTERNATIONAL AG	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
GLENCORE PLC	Meeting	Governance (General)	Small Improvement	Chairperson	JEY
GOLD FIELDS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
GRUPO MEXICO SERVICIOS SA DE CV	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	MEX
HAIER ELECTRONICS GP CO LTD	Sent Correspondence	Environmental Risk	Awaiting Response	Chairperson	HKG
HSBC HOLDINGS PLC	Sent Correspondence	Climate Change	Dialogue	Chairperson	GBR
IBERDROLA SA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	ESP
ILUKA RESOURCES LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
IMPALA PLATINUM HOLDINGS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
INCITEC PIVOT LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
INDEPENDENCE GROUP	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
INDORAMA VENTURES PCL	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	THA
INDUSTRIAS PENOLES, S.A.B. DE C.V	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	MEX
ISRAEL DISCOUNT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
JIANGXI COPPER COMPANY LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
KGHM POLSKA MIEDZ	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	POL
KINROSS GOLD CORP	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
KIRKLAND LAKE GOLD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
KUMBA IRON ORE LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
LAFARGEHOLCIM LTD	Received Correspondence	Climate Change	Small Improvement	Non-Exec Director	CHE
LINDE PLC	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	IRL
LUFTHANSA AG	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DEU
LYNAS CORP LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
MINERAL RESOURCES LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
MITSUBISHI MATERIALS CORPORATION	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	JPN
MIZRAHI TEFAHOT BANK LTD	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
MMC NORILSK NICKEL PJSC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	RUS
MMG LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
MOTOROLA SOLUTIONS INC.	Sent Correspondence	Human Rights	Dialogue	Chairperson	USA
NATIONAL GRID PLC	Meeting	Climate Change	Moderate Improvement	Specialist Staff	GBR
NEWCREST MINING LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
NEWMONT MINING CORP	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	USA
NEXTERA ENERGY INC	Sent Correspondence	Climate Change	Dialogue	Chairperson	USA
NISSAN MOTOR CO LTD	Sent Correspondence	Climate Change	Awaiting Response	Chairperson	JPN
NORTHERN STAR RESOURCES LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
NOVOLIPETSK STEEL PJSC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	RUS
NUTRIEN LTD.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
OMV AG	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	AUT
OROCOBRE LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
OZ MINERALS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
PAN AMERICAN SILVER CORP	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
PAZ OIL CO LTD	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	ISR
PEUGEOT SA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	FRA
PILBARA MINERALS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS

COMPANY PROGRESS REPORT

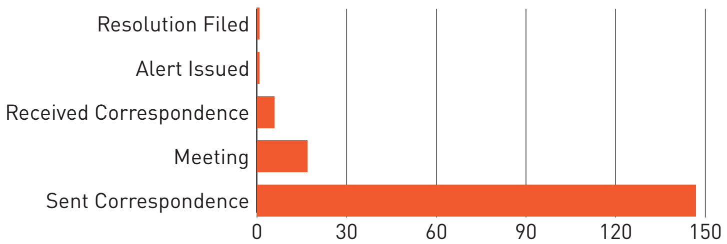
POLYMETAL INTERNATIONAL PLC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CYP
POLYUS MC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	RUS
REGIS RESOURCES LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
RENAULT SA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	FRA
REPSOL SA	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	ESP
RESOLUTE MINING LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
RIO TINTO GROUP (GBP)	Sent Correspondence	Climate Change	Change in Process	Non-Exec Director	GBR
ROYAL DUTCH SHELL PLC	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	NLD
SAINSBURY (J) PLC	Sent Correspondence	Environmental Risk	Awaiting Response	Chairperson	GBR
SANDFIRE RESOURCES	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
SARACEN MINERAL HOLDINGS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
SAUDI ARABIAN MINING COMPANY SJSC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	SAU
SEVERSTAL PJSC	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	RUS
SHAANXI COAL INDUSTRY COMPANY LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
SHANDONG GOLD MINING CO., LTD.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
SIBANYE STILLWATER LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	ZAF
SILVER LAKE RESOURCES	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
SOUTH32	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
SOUTHERN COPPER CORP	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	USA
ST BARBARA LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
STANDARD CHARTERED PLC	Meeting	Climate Change	Small Improvement	Chairperson	GBR
SUMITOMO METAL MINING CO LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	JPN
SUMITOMO MITSUI FINANCIAL GROUP	Sent Correspondence	Governance (General)	Dialogue	Chairperson	JPN
TECK RESOURCES LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CAN
TESLA INC	Sent Correspondence	Climate Change	Awaiting Response	Chairperson	USA
THE MOSAIC COMPANY	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	USA
THYSSENKRUPP AG	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DEU
TOTAL SE	Received Correspondence	Climate Change	Moderate Improvement	Exec Director or CEO	FRA
TRIPADVISOR INC.	Sent Correspondence	Human Rights	Awaiting Response	Chairperson	USA
UNIPER SE	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	USA
UNITED TRACTORS	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	IND
VALE SA	Meeting	Human Rights	Dialogue	Chairperson	BRA
VEDANTA LIMITED	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	IND
VOLKSWAGEN AG	Sent Correspondence	Climate Change	Dialogue	Non-Exec Director	DEU
WESTERN AREAS LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	AUS
YARA INTERNATIONAL	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	NOR
YES BANK	Meeting	Audit Practices	Awaiting Response	Chairperson	IND
ZHEJIANG HUAYOU COBALT	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
ZHONGJIN GOLD CORP., LTD.	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN
ZIJIN MINING GROUP CO LTD	Sent Correspondence	Human Rights	Dialogue	Exec Director or CEO	CHN

ENGAGEMENT DATA

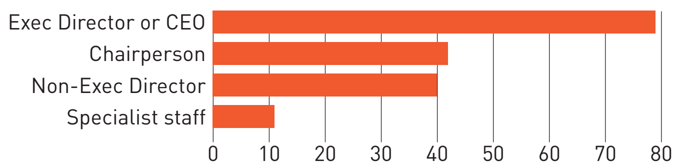
ENGAGEMENT TOPICS



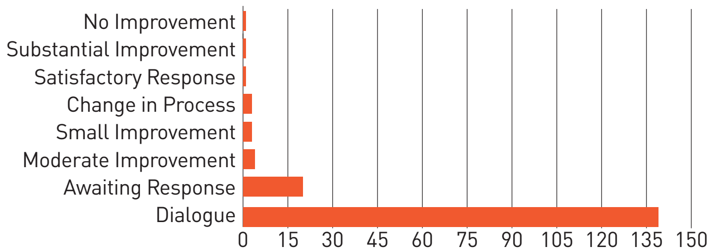
ACTIVITY



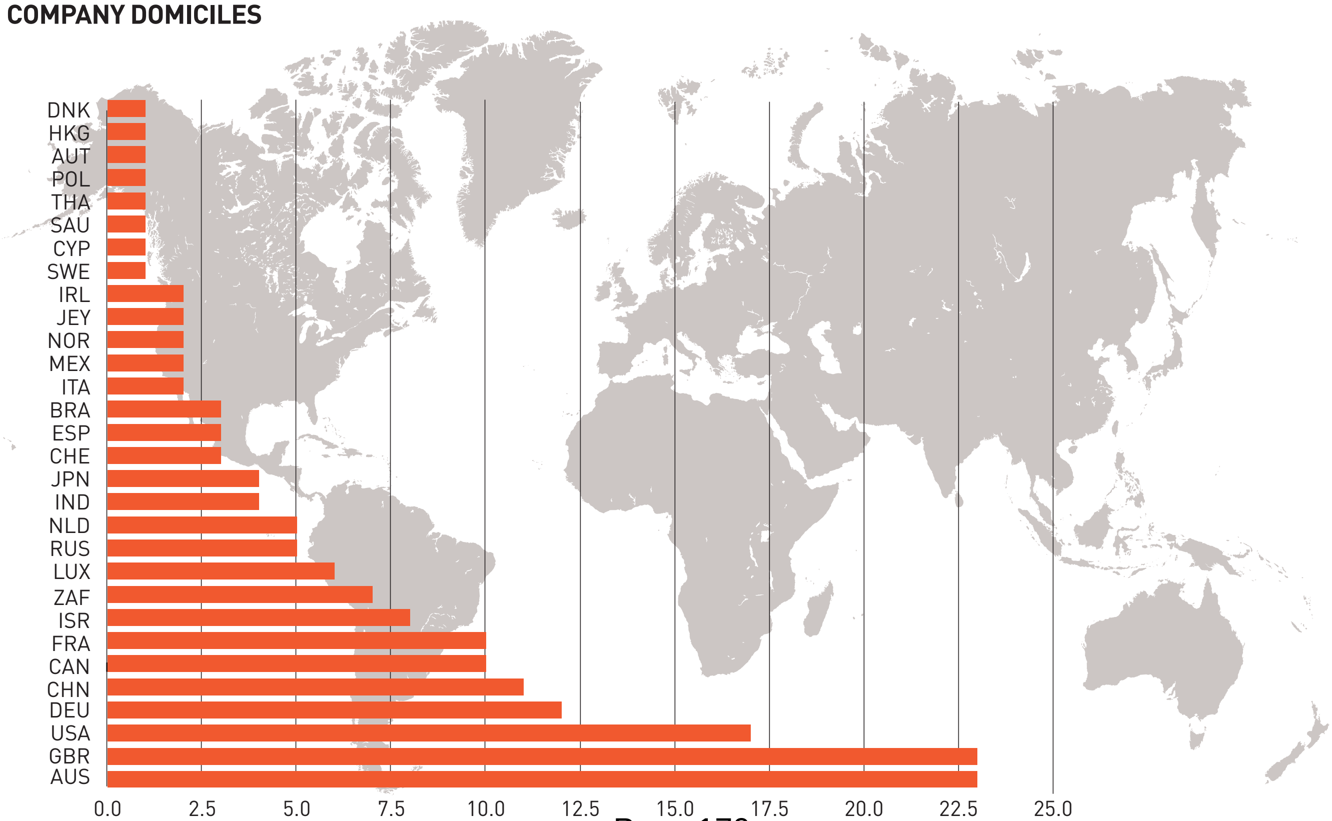
POSITION ENGAGED



MEETING ENGAGEMENT OUTCOMES



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

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Bath & North East Somerset Council		
MEETING	**AVON PENSION FUND COMMITTEE**	
MEETING	**26 March 2021**	Agenda Item Number 15
TITLE:	**Update on Legislation**	
WARD:	**All**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Current matters affecting LGPS administration 28 February 2021		

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.

2 RECOMMENDATION

The Committee is asked to;

2.1 Note the current position regarding the developments that could affect the administration of the fund.

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 obtained legal advice on the best course of action to take in the interim period, and as a result of that advice have taken the decision to offer a member who exceeds the 95k cap the option of taking immediate payment of fully reduced benefits or the option to defer their benefits for payment at a later date. This is also inline with the Government and Scheme Advisory Board recommendations.

(6) On 22 December 2020, three requests for Judicial Reviews of the Restriction of Public Sector Exit Payment Regulations 2020 were given permission to proceed. These requests contest the regulations on a number of grounds, including their effect on the LGPS regulations. It is expected the requests will be heard towards the end of March 2021. MHCLG has confirmed that these hearings will affect the timing of LGPS regulation changes.

(7) On 12 February 2021, HMT published directions disapplying the cap with immediate effect with the regulations revoking the cap coming into force on 19 March 2021. HMT expects employers to pay the additional sums that would have been paid, had the exit cap not applied in respect of employees who left between 4 November 2020 and 11 February 2021

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.

(8) In the meantime, APF have commenced 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, to enable us to apply the remedy once it has been decided.

(9) On 4 February 2021, HMT published its response to the consultation on changes to the transitional arrangements in respect of the unfunded public service pension schemes only. As previously advised, changes to the LGPS were consulted on separately by MHCLG and we expect them to make a Written Ministerial Statement outlining some key remedy policies shortly and a full consultation response will follow later in the year.

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.

(8) On 4 February 2021, the Government announced updates on the 2016 valuation and cost control mechanism for the unfunded public sector pension schemes advising that the cost control element of the 2016 valuations will now be completed incorporating the cost of implementing the McCloud remedy. There will be no reduction to member benefits as a result of completing the 2016 valuation if the cost ceiling is breached. However, if the cost floor is breached, this will be honoured by implementing increases in benefit accrual and/or reductions in member contributions backdated to 1 April 2019.

3.4 SAB Good Governance in the LGPS

(1) 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.

(2) In April 2019, 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 Phase I report which was presented to the SAB in July 2019.

(3) In November 2019, a Phase II report which made recommendations for new standards of governance and administration and proposed how they could be measured and assessed independently was presented to the Board.

(4) On 15 February 2021, the Scheme Advisory Board published Good Governance: Phase 3 Report which was produced by the Hymans Robertson project team. The Phase 3 report provides further details on some of the recommendations that were included in the Phase 2 Report.

(5) The Board agreed that the Chair should submit the Board’s Good Governance Action Plan to the Local Government minister for consideration.

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 EQUALITIES STATEMENT

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

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. 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 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.

Contact person	*Kate Shore, Technical & Compliance Advisor; Tel 01225 395283*
Background papers	*LGA Bulletins* *SAB Meeting Minutes* *National Technical Group Meeting Minutes*
Please contact the report author if you need to access this report in an alternative format	

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List of current developments affecting or expected to affect Scheme Administration – 28 February 2021

Organisation	Item	Details	Status
HMT / MHCLG	**Public Sector Exit Payments Cap / Consultation on Further Reform to Exit Payments**	**Risk Register Item – R53** **Latest Updates:-** **On 12 February 2021,** HMT published the Exit Payment Cap Directions 2021 disapplying parts of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect, meaning the exit cap no longer applies to exits that take place on or after 12 February 2021. HMT expects employers to pay the additional sums that would have been paid, had the exit cap not applied in respect of employees who left between 4 November 2020 and 11 February 2021. On 25 February 2021, The Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 were made and laid before parliament and will come into force on 19th March 2021. These regulations confirm the effect of the disapplication Directions made on the 12th February 2021 but are not retrospective. Despite this revocation, the Government remains committed to implementing reforms to public sector exits which will have the aim of ending excessive payments and bringing practice more in line with the private sector. We understand that MHCLG plans to introduce further changes to exit payments following the recent MHCLG consultation on reforming local government exit pay, however, they will consult again on any further reforms to exit payments before any changes are made. The Government has not confirmed when the exit cap or further reforms will be introduced but we understand an exit cap may be in force later in 2021. **On 22 December 2020**, three requests for Judicial Reviews of the Restriction of Public Sector Exit Payment Regulations 2020 were given permission to proceed. These requests contest the regulations on a number of grounds, including their effect on the LGPS regulations. It is expected the requests will be heard towards the end of March 2021. MHCLG has confirmed that these hearings will affect the timing of LGPS regulation changes. The LGA understand that these proceedings will prevent any direction by the Pensions Ombudsman on this matter until they are complete although they are seeking clarification on this. **On 16 Nov 2020**, APF obtained legal advice on the best course of action to take in the interim period, until the LGPS regulations are amended to accommodate the cap. As a result of that advice we have taken the decision to offer a member who exceeds the 95k cap the option of taking immediate payment of fully reduced benefits or the option to defer their benefits for payment at a later date. This	**Updated**

Organisation	Item	Details	Status
		is also inline with the Government and Scheme Advisory Board recommendations. We have also adopted a partial change in the factors used to calculate pension strain costs following a formal recommendation from our Actuary. New processes are now in place to deal with any cases that arise going forward.	
		Previous Updates:- **On 30 Oct 2020**, SAB published its legal advice together with a commentary for LGPS administering authorities and scheme employers, which can be found as follows:- https://www.lgpsboard.org/index.php/structure-reform/public-sector-exit-payments **On 28 Oct 2020**, 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. **On 15 October 2020**, 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. **On 7 September 2020**, 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	

Organisation	Item	Details	Status
		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. **On 21 July 2020**, 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. 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. 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. **Background:-** The government first consulted on plans to cap exit payments in the public sector in 2015. On 10 April 2019, HMT launched a consultation called ‘Restricting exit payments in the public sector: consultation on implementation of the regulations’. The key points in this latest consultation were as follows:- • No change from the earlier proposal that the maximum exit payment will be £95,000. • The cap will apply to a wide range of public sector employers, including employees of councils	

Organisation	Item	Details	Status
		in England and Wales, fire authorities, police forces, academies and maintained schools. • 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. • 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. • 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. 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. 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.	
Government	**McCloud Judgment**	**Risk Register Item – R63** **Latest Update:-** **On 4 February 2021,** HMT published its response to the consultation on changes to the transitional arrangements in respect of the unfunded public service pension schemes only. Changes to the LGPS were consulted on separately by MHCLG and we expect them to make a Written Ministerial Statement (WMS) outlining some key remedy policies shortly and a full consultation response later in the year. Once the WMS is laid, they will be continuing discussions with the SAB on next steps.	**Updated**
		Previous Updates:- **On 8 October 2020** APF issued their response to the consultation which was included as an appendix to this report at the December meeting The SAB response to MHCLG's consultation is available to view in the following location:-	

Organisation	Item	Details	Status
		http://lgpsboard.org/images/PDF/letters/SAB_FINAL_MCCLOUD_RESPONSE.pdf 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. **On 16 July 2020**, MHCLG published a consultation on amendments to the statutory underpin which are designed to remove age discrimination from the LGPS, see link here. 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. **At the SAB meeting in February**, 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 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. **Background:-** 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	

Organisation	Item	Details	Status
		Government's request for an appeal and as such the case was returned to an Employment Tribunal for remedy. 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. You can find a dedicated 'Cost Management' page on the SAB website as follows:- http://lgpsboard.org/index.php/structure-reform/mccloud-page	
SAB	**LGPS Cost Management Process**	**Risk Register Item – R47** **Latest Update:-** **At the SAB meeting in November,** the Board was reminded of the decision it took when it last met in August to un-pause its own cost cap arrangement until HM Directions including proposals on how McCloud costs are going to be taken into account are published over the coming months. Members were also advised that the Government Actuary's Department is undertaking a review of the cost cap arrangement but that it is unlikely to have any impact on the outstanding 2016 cost cap process or the forthcoming 2020 process. The Government announced updates on the 2016 valuation and cost control mechanism for the unfunded public sector pension schemes advising that the cost control element of the 2016 valuations will now be completed incorporating the cost of implementing the McCloud remedy. There will be no reduction to member benefits as a result of completing the 2016 valuation if the cost ceiling is breached. However, if the cost floor is breached, this will be honoured by implementing increases in benefit accrual and/or reductions in member contributions backdated to 1 April 2019.	**Updated**

Organisation	Item	Details	Status
		Previous Updates:- **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. **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. **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. **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. **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 ahead of the deadline of 18 November 2019. **On 14 May 2019** SAB published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations.	

Organisation	Item	Details	Status
		Background:- 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:- http://lgpsboard.org/index.php/structure-reform/cost-management 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. 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.	
SAB	**Good Governance in the LGPS**	**Latest Update:-** **On 15 February 2021,** the Scheme Advisory Board published Good Governance: Phase 3 Report which was produced by the Hymans Robertson project team. The Phase 3 report, link here, provides further details on some of the recommendations that were included in the Phase 2 Report. The Board agreed that the Chair should submit the Board's Good Governance Action Plan, link here, to the Local Government minister for consideration.	**Updated**

Organisation	Item	Details	Status
		Previous Updates:- **At the SAB meeting in August 2020**, 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. **In April 2020**, 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. **In February 2020**, 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. **In November 2019**, 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: • general governance • conflicts of interest • representation • skills and training • service delivery for the LGPS function • compliance and improvement You can find the report as follows:- http://lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf	

Organisation	Item	Details	Status
		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. **In April 2019**, 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:- http://lgpsboard.org/images/PDF/GGreport.pdf 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. **Background:-** 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.	

Organisation	Item	Details	Status
SAB	Tier 3 Employers	**Previous Updates:-** **At the SAB Meeting in May 2020**, 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. **At the SAB Meeting in Jan 2019**, the Board was advised that the work of the third tier employers' project working group had been put on hold due to competing priorities. **In Sept 2018**, a final version of the Aon report was published and can be found as follows:- http://lgpsboard.org/images/PDF/Tier_3_employers_in_the_LGPS_FINAL.pdf **At the SAB meeting in Jun 2018**, 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. 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. **Background:-** 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). The work was split into two concurrent phases: 1) The Board was to work with LGPS administering authorities to gather data regarding the number, membership, liabilities and covenants of these employers.	**No Further Update**

Organisation	Item	Details	Status
		2) Separately the Board appointed Aon to assist it in further analysis in this area. You can find a dedicated 'Tier 3 Employers' page on the SAB website as follows:- http://lgpsboard.org/index.php/structure-reform/tier-3-employers	
MHCLG	**Consultation on Fair Deal**	**On 10 December 2019,** 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". **Background:-** 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. MHCLG received around 79 responses, one of which was from APF.	**No Further Update**
HMT	**Written Ministerial Statement on Survivors Benefits**	**Previous Update:-** **On 20 Jul 2020**, 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.	**No Further Update**

Organisation	Item	Details	Status
MHCLG	**Consultation on LGPS Local Valuation Cycle and the Management of Employer Risk**	**Risk Register Item – R62 (In respect of Exit Credits)** **Latest Updates:-** **On 2 March 2021**, MHCLG published statutory guidance to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on employer flexibilities introduced in September 2020. More detailed guidance prepared by the Scheme Advisory Board, to be read in conjunction with MHCLG's statutory guidance, was published on 22 February 2021. MHCLG are defending two claims for judicial review challenging the 2020 amendment to the LGPS Regulations on the payment of exit credits. The claimant in the Northants case was granted permission by the court on 12 November to proceed to a full hearing and the case is listed to be heard in March. **On 2 December 2020,** the secretariat to the SAB emailed pensions managers for comment on a draft guide to employer flexibilities. This was prepared by the SAB in conjunction with representatives from administering authorities and scheme employers. The purpose of the guide is to provide operational and practical assistance to administering authorities and employers when implementing employer flexibilities introduced by the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020. APF issued a response on 7 January 2021. **Previous Updates:-** **On 26 Aug 2020**, 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 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.	**Updated**

Organisation	Item	Details	Status
		On 27 Feb 2020, 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. 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. **Background:-** 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: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments (Update - Resolved following second partial response to consultation in Aug 2020 and Amendment Regulations in Sept 2020). 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). 5. Proposals for policy changes to employers required to offer LGPS membership MHCLG received around 280 responses, one of which was from APF.	

Organisation	Item	Details	Status
TPR	**TPR Pledge to Combat Pension Scams**	**On 10 November 2020,** the Pensions Regulator (TPR) launched the pledge to combat pension scams campaign. The campaign is supported by the Pension Scams Industry Group (PSIG) and urges administrators to commit to taking a number of actions to help protect scheme members thinking of transferring their pensions. Pledging to combat pension scams would show our intent to protect our members. It tells our members and the pensions industry that we are committed to stopping scammers in their tracks. We are currently in the process of reviewing the requirements outlined in the pledge against our internal transfer processes in order to ensure that we have covered all of the necessary commitments required to enable us to make a pledge. Once we have taken the pledge we will also ensure that this is adequately communicated on our website and member correspondence. **Background:-** According to complaints filed with Action Fraud, more than £30 million has been reportedly lost to pension scammers since 2017.	**New Item**
ONS	**September 2020 Rate of CPI**	**On 21 October 2020,** the Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2020 as 0.5%. We await confirmation from Government that the revaluation and pensions increase that will apply to LGPS active pension accounts, deferred pensions and pensions in payment in April 2021 will be 0.5%. **Background:-** Government policy in recent years has been to base increases under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI in September of the previous year.	**New Item**

Organisation	Item	Details	Status
HMT	**Equalisation of GMPs in public service pension schemes**	**On 20 November 2020,** the High Court ruled that trustees who do not equalise a member's GMP benefits at the time of calculating a cash equivalent transfer value (CETVs) have committed a breach of duty. Defined benefit schemes providing GMPs should revisit historic CETVs made in the past 30 years and top them up where necessary. The judgment does not force organisations to actively correct all pensions transfers; however, employers may look to do so to avoid legal proceedings from members affected. We await further guidance from MHCLG and GAD on how GMP equalisation will be achieved in the LGPS. **Background:-** **On 26 October 2018**, Mr Justice Morgan handed down judgment in Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC, HBOS PLC, Angela Sharp, Judith Cain, Susan Dixon, Secretary of State for Work and Pensions and HMT. The High Court has held that schemes must equalise the discriminatory effects of GMPs and that this can be achieved using several methods. At the time, HMT confirmed that the judgement “does not impact on the current method used to achieve equalisation and indexation in public service pension schemes”.	**New Item**
HMT	**Indexation of GMPs in public service pension schemes**	**Latest Update:-** **On 21 December 2020,** the LGA and the LGPC submitted a joint response to the consultation setting out their view that they do not consider an extension of full indexation until April 2024 to be enough time, and that they believe it should either be extended for as long as possible, potentially until April 2030, or be made the permanent solution. Their main reason for this response being that the administrators of public service pension schemes are currently undertaking large programmes of work which are unlikely to be completed much before April 2030. A government response on the consultation is expected by April 2021. **Previous Updates:-** **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	**Updated**

Organisation	Item	Details	Status
		until at least April 2024 or to make it a permanent solution. A link to the consultation can be found as follows:- https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation 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. **Background:-** 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. 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. 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. 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".	

Organisation	Item	Details	Status
Government	Pension Schemes Bill	**Latest Update:-** **On 11 February 2021**, the Pension Schemes Act 2021 received Royal Assent and the provisions within the Act will come into force when the Secretary of State makes regulations for them to do so. The Act paves the way for the creation of Pensions Dashboards and the introduction of new powers for TPR concerning employer debt. It also introduces a requirement to assess, manage and report on climate related risks and extra conditions that members must satisfy before they are able to transfer out their LGPS benefits. The provisions of the Act that will affect the LGPS in the main are:- <u>Climate risk reporting</u> On 27 January 2021, the Government launched a consultation on regulations entitled 'Taking action on climate risk: improving governance and reporting by occupational pension schemes' which ran until 10th March 2021. The scope of the regulations do not include the LGPS however regulations are expected from MHCLG to substantially mirror the requirements set out in this document with a consultation on such regulations expected in the near future. <u>Pensions Dashboards</u> Administering authorities should take action to improve data quality to ensure that they are ready to supply the right information to the dashboards once they are live. <u>Transfers out</u> We are waiting for secondary legislation to fill in the detail of the extra conditions members must satisfy before they are able to transfer out their LGPS benefits. **Previous Updates:-** **On 7 Oct 2020**, 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. **On 19 Dec 2019**, 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	Updated

Organisation	Item	Details	Status
		January 2020. The Bill will now move to committee stage. **On 14 Oct 2019**, the Queen confirmed, in her speech, that a new Pension Schemes Bill will be introduced and will:- • strengthen TPR's powers • provide a framework to support pensions dashboards and • introduce regulations covering the right to a pension transfer.	
TPR	**Codes of Practice**	**Previous Update:-** **On 1 September 2020**, TPR confirmed that it intends to launch the formal consultation on a single Code of Practice in late 2020 or early 2021. **Background:-** 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.	**No Further Update**
HMT	**Consultation on the Increase to the Normal Minimum Pension Age (NMPA)**	**On 11 February 2021**, HMT published Increasing the normal minimum pension age: consultation on implementation. The consultation, which closes on the 22 April 2021, re-confirms the Government's commitment to increasing the NMPA and seeks views on the implementation of the rise in NMPA and protections for pension scheme members. It proposes that members who have a right under the scheme rules to take benefits before age 57 at the date of the consultation will be protected from the increase in NMPA. **Background:-** In 2014, the Coalition Government consulted on increasing the normal minimum pension age (NMPA) from 55 to 57 from 6 April 2028 as part of the Freedom and choice in pensions consultation.	**New Item**

Organisation	Item	Details	Status
DWP	Pensions Dashboard	**Latest Update:-** **On 15 December 2020**, the Pensions Dashboard Programme (PDP) published the key data standards which will underpin pensions dashboards. Data standards provide a common language to describe the pensions information that will be found and displayed on the dashboards. Pension schemes will need to make sure that their data is consistent with the standards, so that members can access this through the dashboards. With onboarding to dashboards expected from 2023, the PDP urges all schemes to start preparing their data now. **On 28 October 2020**, the Money and Pensions Service (MaPS) published their second Pensions Dashboards Programme progress update report, see link here. The report includes updates on: • the Pension Dashboards Programme's (PDP) high level activity plan • resourcing to deliver next phases of the programme • market engagement to help finalise digital architecture requirements • refining requirements for identity verification • setting up a working group to ensure consumer focus • reviewing feedback. The timetable in the report reveals that the PDP expects the dashboard to be available to retirement savers for the first time in 2023. **Previous Update:-** **In April 2020**, MaPs published two papers:- • Pensions Dashboards Data Definitions – Working Paper (which lists the set of data items that could be included in the dashboards data standards. • 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. MaPS requested formal feedback on these papers throughout July and August and are currently	Updated

Organisation	Item	Details	Status
		reviewing the responses received and will give a summary in the autumn. **Background:-** 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:- • Legislation to compel pension providers to make consumers' data available on the dashboard • Staged onboarding of schemes with the majority of schemes participating within 3 to 4 years • The inclusion of state pension data • A commitment to multiple dashboards, with a non-commercial dashboard being overseen by the Money and Pensions Service (MAPS). 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. 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 his Department's intention to include a Pensions Bill in the next Queen's Speech for this.	
Government	**Divorce, Dissolution and Separation Act 2020**	**On 25 June 2020**, 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".	**No Further Update**

Organisation	Item	Details	Status
SAB	Responsible Investment	**Latest Update:-** At the SAB Meeting in February, the Board was advised that work on preparing the responsible investment A to Z website continues. The first milestone, a working version of the website, has been reached and work will now commence on populating the underlying database with relevant items. The aim remains for the website to go live towards the end of March. The Board also agreed membership of the new Responsible Investment Advisory Group (RIAG) as recommended by the investment, governance and engagement committee. The first meeting of the RIAG is scheduled for early March.	Updated
		At the SAB Meeting in May 2020, 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. **On 11 May 2020,** 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'. **On 24 February 2020,** 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. 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	

Organisation	Item	Details	Status
		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. For these reasons, the view is taken that it would be imprudent at this stage to offer any definitive 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. 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. 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. **On 3 January 2020,** APF issued their response to the consultation. **Background:-** **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.	

Organisation	Item	Details	Status
		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 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.	
Government	**Consultation on Changes in RPI Methodology**	**Latest Update:-** **On 2 February 2021,** HMT and the UK Statistics Authority (UKSA) published a joint response to the consultation on Reform to the Retail Prices Index (RPI) methodology. The Chancellor has announced that he is unable to offer his consent to the changes before the final specific index-linked gilt matures in 2030. The UKSA has confirmed that it intends to implement the proposed changes at the earliest date that it is legally and practically possible to do so – from February 2030. Trustees of large occupational pension schemes are considering whether to apply for a judicial review of the decision to align RPI with CPIH and have until 7 April 2021 to decide whether to apply. **On 25 November 2020,** the Government and the UKSA published the response which in indicates that RPI will be reformed to align with the Consumer Prices Index (including housing costs – CPIH). The reform will take place no earlier than February 2030. The Government acknowledges that the reforms could have an impact on defined benefit schemes but confirms that the later effective date of the changes will help to mitigate this. Members who made an election to purchase additional pension before 1 April 2012 receive annual increases on the additional pension purchased based on RPI. The increase on these benefits will be impacted when the reforms to RPI take place. **Previous Updates:-** **On 11 March 2020,** 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	**Updated**

Organisation	Item	Details	Status
		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. **On 13 January 2020,** 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. **Background:-** 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.	

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 March 2021**	**AGENDA ITEM NUMBER**
TITLE:	**FUNDING & EMPLOYER UPDATE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Employer update		

1 THE ISSUE

1.1 To provide the Committee with an up to date summary of the employer base of the Fund, changes and current issues. This is to be considered in the context of employer risk.

1.2 Given the range and number of individual employers in the Fund each posing different levels of risk the Fund has developed a comprehensive framework for monitoring employer risk. This framework helps direct resources where closer monitoring is required and enables the Fund to identify any emerging risks early so that actions can be taken to prevent sub optimal outcomes.

1.3 At the June committee meeting a summary of employer covenant work will be provided.

2 RECOMMENDATION

2.1 The Committee notes the report.

3 FINANCIAL IMPLICATIONS

2.1 The triennial valuation assesses the funding position of the Fund as a whole and sets the contribution rates for individual employers for the following 3 years. The next valuation will be at 31 March 2022. An interim valuation at the whole fund level will take place at 31 March 2021. The purpose of the interim valuation is to give the Fund and employers an indication of the potential future changes in employer contributions. This will particularly important in view of the financial implications resulting from the pandemic.

4 REGULATORY AND POLICY CHANGES

4.1 There have been a number of regulatory changes that need to be incorporated when managing employer events (such as exit) as follows:

McCloud: This refers to the age discrimination case brought in respect of the Judges and Firefighters schemes relating to age protections when the scheme was changed in 2014. The Government confirmed that the judgement would apply to the LGPS, and the Scheme Advisory Board set out how McCloud should be allowed for in the 2019 Valuation. There has been no further update, although a Ministerial Statement is expected soon. Although no change to the Regulations has yet been made, we know that a liability exists. Therefore, potential costs arising from McCloud need to be considered when employers exit the Fund.

4.2 **Exit Credits:** Changes to the Regulations were made in March 2020 setting out how the Fund should deal with surpluses when an employer exits from the Fund (known as an exit credit). So far only two exit credits have been paid to exiting employers and these totalled less than £5,000. The risk to the Fund of having to pay a large surplus to an exiting employer is managed by monitoring employers in surplus, liaising with outsourcing employers to vary their contracts where possible and ensuring the issue is addressed in new admission agreements

4.3 **Funding Flexibilities:** The Regulations were changed in September 2020 to introduce employer flexibilities which allow, in certain circumstances the following:

- contribution rates to be reviewed between valuations
- exit payments to be paid according to a payment plan
- employers to enter into a Deferred Debt Arrangement

Amendments to the Funding Strategy Statement were agreed by Committee in December. The Scheme Advisory Board has consulted on guidance concerning the implementation of these Regulations and just published final guidance. The Fund and Actuary are now finalising the Funding Strategy Statement and consulting employers. The introduction of these flexibilities will no doubt increase workload as employers approach the Fund to actively manage their pension risk. These changes will also enable the Fund to proactively manage employers' exits as their membership reduces.

5 EMPLOYER ACTIVITY UPDATE

5.1 A summary of employer activity from 1 April 2020 to date is set out in the table below:

	At 31/03/2020	Joined	Left	At 31/01/2021
Scheduled				
Local Authority	4	0	0	4
Academies	238	11	1	248
Higher and Further education	8	0	0	8
Town and Parish councils	35	0	0	35
Other Scheduled and resolution employers incl. WECA and Avon Fire	8	0	1	7
Admitted				
Admission bodies guaranteed	108	19	20	107
Admission bodies unguaranteed	8	0	0	8
Total	**409**	**30**	**22**	**417**

5.2 Although academy conversions have slowed, the government's policy continues to support academisation and so conversion to academy status is expected to continue at least at the current rate. There continues to be changes in the academy employer base with one academy closure in the period and single academies joining Multi Academy Trusts (MAT). The Fund has 30 MAT's, the three largest of which have 20 or more academies in our Fund.

5.3 All admitted employers joining the Fund are required to have a guarantee in line with the Funds policy. Most admissions are from outsourcings, particularly by MAT's outsourcing catering and cleaning services. Unitary Authority related admissions also reflect cleaning and catering at maintained schools being outsourced as well as care and leisure contracts. The number of exiting admitted employers reflects short term outsourcing contracts ending when the last member leaves or the contract is re-let.

5.4 The total number of employers appears to be stabilising after recent years of growth driven in the main by the government's academy program. Admissions and exits are processed in accordance with the Regulations and Funding Strategy Statement which are designed to protect the Fund from financial risk.

5.5 The pandemic has created unprecedented upheaval for most employers resulting in change due to employer strategic decisions and individual member decisions. Employers are reviewing their costs and, in some cases, where permitted, this can mean considering closing to new accruals or exiting the Fund. The Fund is working with many employers, in a wide range of circumstances, to share information for decision making (including membership data, funding updates) whilst ensuring the Fund's policies are communicated clearly and implemented in accordance with the Regulations and Funding Strategy Statement.

5.6 A summary of the liabilities and membership by employers is shown below:

5.7 The table shows how the liabilities in the Fund are distributed. The unitary authorities have tax raising powers as do town and parish councils and the academies are guaranteed by the DfE. The largest group by membership and liabilities of non-guaranteed, non-tax raising bodies is the higher and further education employers; as a result, the Fund prioritises its engagement with these employers so as to manage the overall risk to the Fund.

5.8 The Fund is at risk from eight unguaranteed admission bodies (admitted to the Fund before guarantees were permitted), which are actively engaged with by officers to manage the risk to the Fund. Four are on the more prudent lower risk funding basis and the Fund holds security in the case of four employers to mitigate risk. As some of these bodies are nearing a natural exit as have few members left in the scheme, it is anticipated that the new employer flexibilities will be used where appropriate because the cost of exiting the Fund on a clean break basis has increased significantly in recent years. The yield on corporate bonds, which is used in the lower risk funding discount rate, has fallen from 2.6% at the 2019 valuation to 1.6% currently.

5.9 An Interim valuation will be completed in late 2021 to inform the Fund and employers of the potential outcome for the 2022 valuation. Given the difficult financial outlook for many employers due to the pandemic, officers will begin discussions about affordability with employers ahead of the 2022 valuation.

6 RISK MANAGEMENT

6.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The Funding Strategy is designed to manage this risk to ensure the Fund achieves full solvency over an appropriate period. Assessing the strength of an employing body's covenant is also a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process is part of the process for setting funding plans and will be discussed at the next committee meeting.

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 addresses 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 – report for information only.

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.

Contact person	Julia Grace, Funding and Valuation Manager 01225 395392
Background papers	Funding Strategy Statement
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 323/21

Meeting / Decision: Avon Pension Fund Committee
Date: 26 March 2021

Author: Liz Woodyard / Julia Grace
Report Title: Funding & Employer Update **Exempt Appendix Title**: Exempt Appendix 1 – Employer Activity update

The Report contains 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 appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

<u>PUBLIC INTEREST TEST</u>

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.

Weighed against this is the fact that the exempt appendix contains financial information about the organisations which is commercially sensitive and could prejudice the commercial interests of the organisations if released. The exempt appendix also include the observations and opinions of officers on the financial strength of these organisations.

It would not be in the public interest if advisors and officers could not express in confidence opinions 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 has been made available on these issues – 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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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 March 2021**
TITLE:	**PENSION FUND ADMINISTRATION** **Overview & Summary Performance Report**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Membership data

Appendix 2 – Performance against SLA & Workload

Appendix 2a – Performance against Statutory Legal Deadlines

Appendix 3 – Employer Performance

Appendix 4 – TPR Data Improvement Plan

Appendix 5 – Late Payers

Appendix 6 – IDRP Current Cases

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 31st December 2020 and actions undertaken following the Coronavirus outbreak and UK lockdown on 23rd March 2020.

2 RECOMMENDATION

The Committee is asked to Note:-

2.1 Fund and Employer performance for the three months to 31st December 2020.

3 COVID-19 AND FUND BUSINESS CONTINUITY

3.1 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.

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 focussing on the continued payment of pensioner and dependent members and the processing of retirements and death cases remains, funds have been also 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 and 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.

6 APF PERFORMANCE

6.1 As per TPR guidance the Fund has focussed on critical member processes including those related to the payment of retirement and death benefits. **Appendix 2 (Annex 1 & 2**) and **Appendix 2a** provide details of APF performance up to the end of the quarter for all KPI's measured against both SLA and statutory legal deadlines.

6.2 KPI's continue to be monitored and reported to the Pensions Manager for review on a bi-weekly basis. **Appendix 2** (**Annex 3**) reflects the position at the end of December with an overall total of 3,294 cases outstanding of which 1,828 (55%) are workable. This represents a minor decrease in outstanding workable cases over the previous period.

7 EMPLOYER PERFORMANCE

7.1 **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 31st December 2020.

7.2 Further data analysis reports are currently being finalised to reflect employer monthly i-Connect data returns and these will be introduced from the next quarter.

8 TPR DATA IMPROVEMENT PLAN

8.1 There has been a reduction in recorded common data errors across most membership categories (**Appendix 4**), with an improved overall data score of 95.38% for the quarter ending December 2020.

8.2 Improvements in the data score can be partly attributed to the missing CARE project that has been underway for the last 6 months which is now seeing positive results from employers and progress continues to be made with the address tracing project.

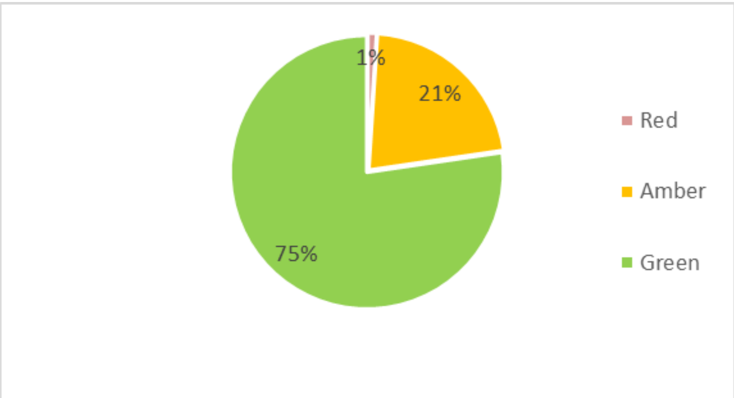
8.3 The project undertaken to trace and correct missing member addresses is continuing. Of the 6,700 cases originally identified 4,740 positive matches have been confirmed by the tracing agency of which 32% have individually been verified as correct. Further work is ongoing to complete the project members and to address those cases as yet unprocessed. A detailed report on progress will be presented at the next committee meeting.

8.4 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).

8.5 The chart below shows positive improvement of employers with zero data queries, this has risen from 68% to 75% across fund employers.

No of Employers Sept 2020	No of Employers Dec 2020	Queries	RAG rating
25	20	10% >	Red
109	96	0.1 to 10%	Amber
308	336	0%	Green

December 2020



8.5 Data for the Unitary Authorities is listed below.

Unitary authorities	Queries Mar 20	Queries Jun 20	Queries Sept 20	Queries Dec 20	Member ship	RAG	RATING
BANES	48	41	74	44	3244	1.35%	Amber
Bristol City	271	224	196	173	9888	1.75%	Amber
North Somerset	8	10	17	10	2268	0.44%	Amber
South Gloucestershire	142	134	166	106	6979	1.51%	Amber

9 RESOURCE UPDATE

9.1 The administration recruitment project is still ongoing and currently in phase 2 of 3. The induction and training of newly appointed members of staff via the new training officer program is in place and working well.

9.2 A project lead has now been appointed for the McCloud data collection project, this was an internal appointment and backfilling is currently underway.

10 LATE PAYERS

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

10.2 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 material significance.

10.3 **Appendix 5** reports late payers in the period to 31st December 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.

11 IDRP

11.1 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 IDRP. The table at **Appendix 6** shows the cases going through at the present time.

12 RISK MANAGEMENT

12.1 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.

13 EQUALITIES STATEMENT

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

14 CLIMATE CHANGE

14.1 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.

15 OTHER OPTIONS CONSIDERED

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

16 CONSULTATION

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

Contact person	*Geoff Cleak, Pensions Manager; Tel 01225 395277*
Background	*Various statistical documents.*

papers	
Please contact the report author if you need to access this report in an alternative format	

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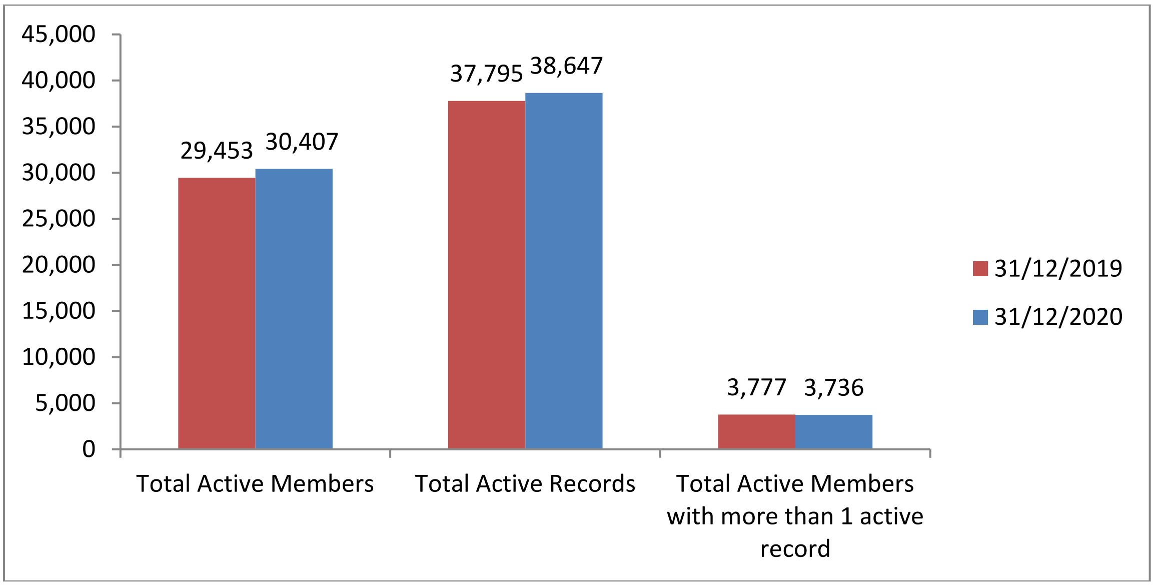
Membership data as at 31st December 2020 Appendix 1

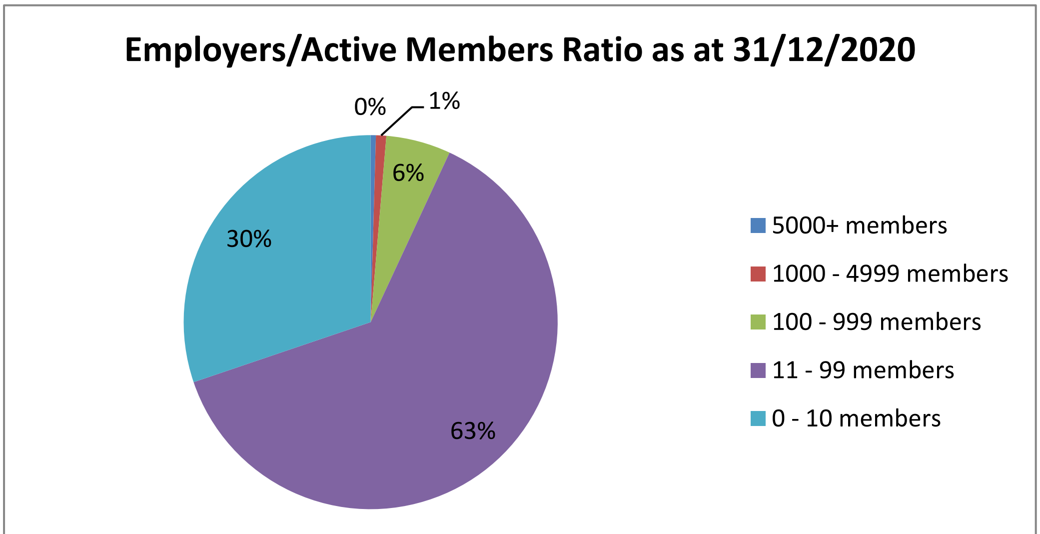
Annex 1

Active membership	31/12/2019	31/12/2020	+/-
Total Active Members	29,453	30,407	+954
Total Active Records	37,795	38,647	+852
Total Active Members with more than 1 active record	3,777	3,736	-41



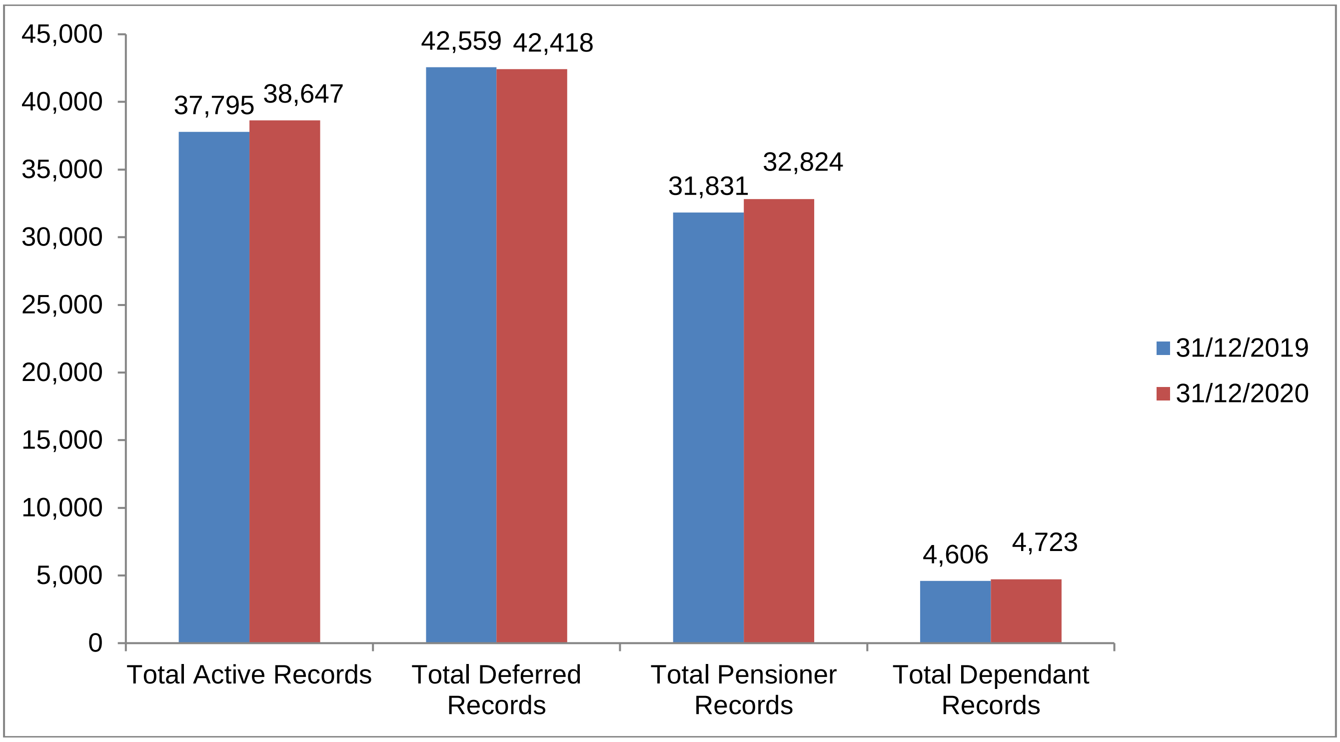
Annex 2

Employers/Active Members Ratio	31/12/2019	31/12/2020	+/-
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	23	25	+2
Number of employers with between 11 and 99 members	265	281	+16
Number of employers with between 0 and 10 members	147	135	-12
Total	441	447	+6



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

	31/12/2019	31/12/2020	+/-
Total Active Records	37,795	38,647	+852
Total Deferred Records	42,559	42,418	-141
Total Pensioner Records	31,831	32,824	+993
Total Dependant Records	4,606	4,723	+117



Fund Performance against SLA – KPI's As at 31 December 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**	272	220	80.88%	21	88.60%
	Payment - 15 days	189	163	86.24%	19	96.30%
Retirement (from Deferred)	**Quote - 30 days**	77	50	64.94%	5	71.43%
	Payment - 15 days	265	252	95.09%	6	97.36%
Deaths	**Notification - 5 days**	96	96	100.00%		100.00%
	Payment - 10 days	90	88	97.78%	1	98.89%
Refund of contributions	**Quote - 10 days**	192	27	14.06%	5	16.67%
	Payment - 10 days	147	105	71.43%	33	93.88%
Deferreds (early leavers)	**30 days**	313	78	24.92%	235	100.00%
Transfers In	**Quote - 10 days**	44	36	81.82%	6	95.45%
	Payment - 10 days	48	30	62.50%	11	85.42%
Transfers Out	**Quote - 10 days**	48	7	14.58%	6	27.08%
	Payment - 10 days	15	8	53.33%	1	60.00%
Estimates	**Member - 15 days**	101	77	76.24%	14	90.10%
	Employer - 15 days	42	36	85.71%	2	90.48%
Divorce	**Quote - 45 days**	55	50	90.91%	0	90.91%
	Actual - 15 days	2	2	100.00%	0	100.00%
Starters	**40 days**	323	230	71.21%	0	71.21%
		2319	1555	67.05%	365	82.79%

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+
Retirement (from Active)	**Quote - 15 days**	11	78	77	65	21	20	9	2
	Payment - 15 days	9	93	51	19	19	4	1	2
Retirement (from Deferred)	**Quote - 30 days**	10	55	9	7	0	2	0	4
	Payment - 15 days	6	175	55	22	6	4	1	2
Deaths	**Notification - 5 days**	1	96	0	0	0	0	0	0
	Payment - 10 days	4	78	10	1	1	0	0	0
Refund of contributions	**Quote - 10 days**	24	24	3	5	10	4	35	111
	Payment - 10 days	9	80	25	33	6	3	0	0
Deferreds (early leavers)	**30 days**	53	14	13	20	20	8	3	235
Transfers In	**Quote - 10 days**	12	10	26	6	0	0	0	2
	Payment - 10 days	11	22	8	11	0	3	2	2
Transfers Out	**Quote - 10 days**	34	3	4	6	4	3	12	16
	Payment - 10 days	12	5	3	1	4	2	0	0
Estimates	**Member - 15 days**	13	20	39	18	14	10	0	0
	Employer - 15 days	7	24	6	6	2	3	1	0
Divorce	**Quote - 45 days**	25	10	9	7	3	4	7	15
	Actual - 15 days	1	2	0	0	0	0	0	0
Starters	**40 days**	30	15	69	20	71	16	19	57

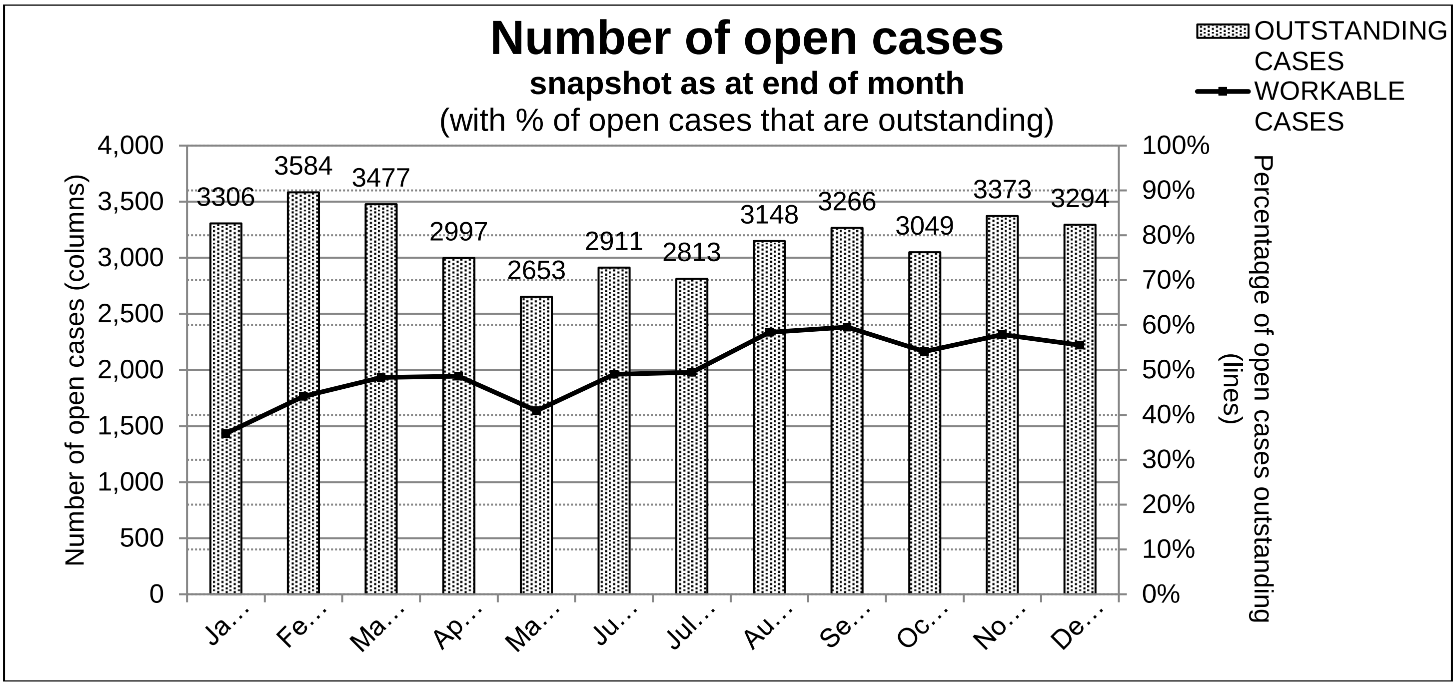
RAG key	Processed
Red	More than 5 days over target
Amber	Within 5 days of target
Green	Within target

Annex 2

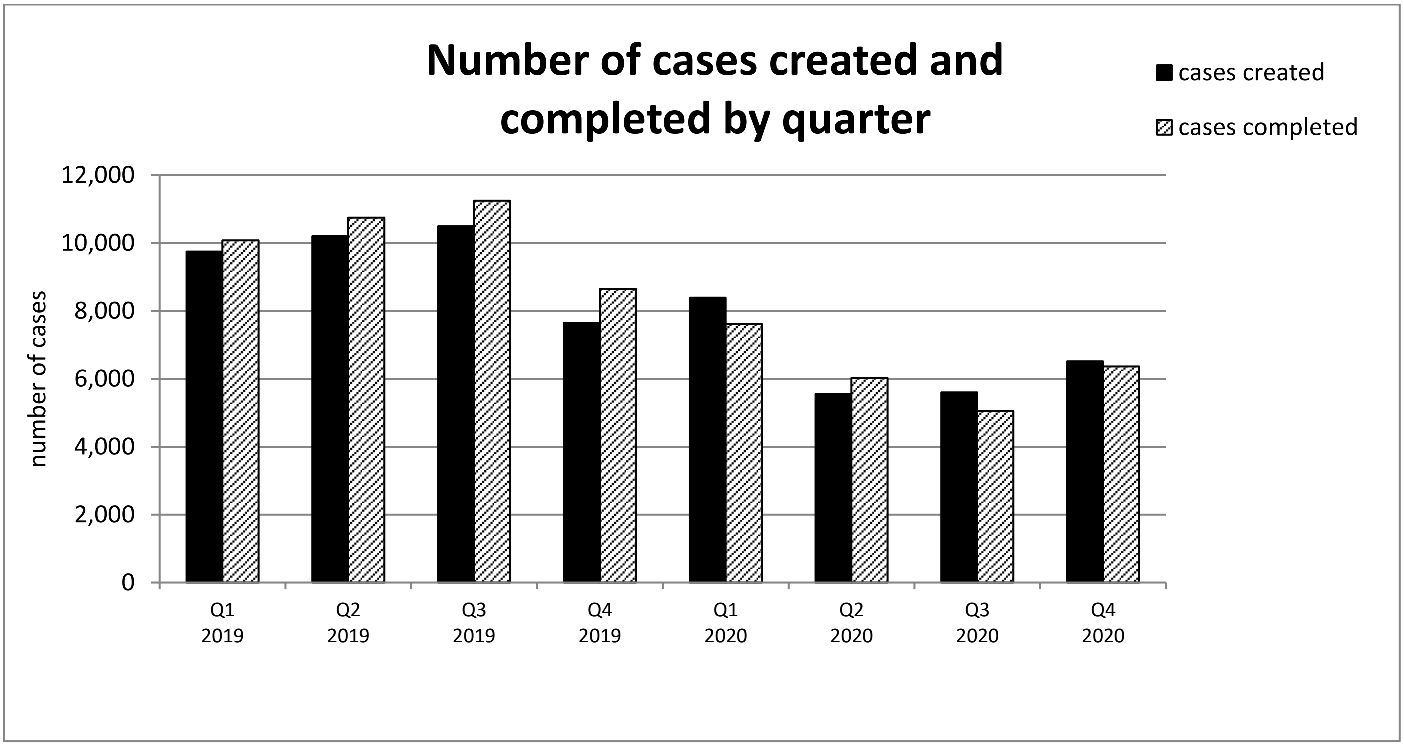
SLA Standards for Processing Admin Tasks						
Work Type	Target Processing SLA (Old/New)	Q1 Jan 20 - Mar 20	Q2 Apr 20 - Jun 20	Q2 Jul 20 - Sept 20	Q2 Oct 20 - Dec 20	Trend
Retirement (from Active)	Quote - 5 / 15 days	75.14%	93.94%	84.98%	80.88%	
	Payment - 5 / 15 days	95.21%	98.16%	97.26%	86.24%	
Retirement (from Deferred)	Quote - 30 days	45.78%	73.58%	56.04%	64.94%	
	Payment - 5 / 15 days	95.02%	98.75%	97.47%	95.09%	
Deaths	Notification - 5 days	99.21%	97.20%	100.00%	100.00%	
	Payment - 5 / 10 days	99.09%	92.16%	94.51%	97.78%	
Refund of contributions	Quote - 10 days	78.65%	45.07%	58.31%	14.06%	
	Payment - 10 days	76.68%	97.27%	97.04%	71.43%	
Deferreds (early leavers)	Notification - 20 / 30 days	96.84%	42.86%	18.24%	24.92%	
Transfers In	Quote - 10 days	80.25%	46.59%	38.46%	81.82%	
	Payment - 10 days	85.71%	47.83%	64.58%	62.50%	
Transfers Out	Quote - 10 days	90.27%	30.93%	18.42%	14.58%	
	Payment - 10 days	90.91%	31.25%	57.14%	53.33%	
Estimates	Member - 10/15 days	90.55%	86.84%	87.15%	76.24%	
	Employer - 15 days	68.75%	94.23%	50.00%	85.71%	
Divorce	Quote - 45 days	90.79%	92.00%	95.56%	90.91%	
	Actual - 15 days	100.00%	100.00%	100.00%	100.00%	
Starters	40 days	98.80%	99.42%	100.00%	71.21%	
	Total Cases Processed	4274	3053	2342	2319	

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

Annex 3



Annex 4



Appendix 2a

APF Completed Cases - Performance against Statutory Legal Deadline

		Cases Last Quarter - October 20 - December 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	76	63	82.89%
Retirement (from Deferred)	**Notification of Benefits**	23/46 days	72	68	94.44%
Deaths	**Notification of Benefits**	46 days	86	86	100.00%
Refund of contributions	**Notification of Entitlement**	46 days	192	192	100.00%
Deferreds (early leavers)	**Notification of Entitlement**	46 days	313	313	100.00%
Transfers In	**Provision of Quotation**	46 days	40	34	85.00%
Transfers Out	**Notification of Trf Value**	69 days	48	46	95.83%
	Payment of Trf Value	138 days	14	14	100.00%
Estimates	**Provision of Quotation**	46 days	107	106	99.07%
Divorce	**Provision of Quotation**	69 days	55	50	90.91%
	Application of Order	92 days	2	2	100.00%
Starters	**Statutory Notice Issued**	46 days	323	230	71.21%

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

Comments where performance has fallen below expected target:-

Retirements – Home working and lockdown restrictions with further limited acess to the office has impacted case work completion. We have also expirenced a number of delays with obtaining information from employers once a member has left.

Transfers In – Due to working from home and lockdown restrictions with access to the office these cases were initially not a priorty and our main focus was on paying benefits, tranfer in cases are currently delayed at print stage causing a backlog.

Starters – The delays have been due to the late submission of some i-Connect monthly returns causing a backlog of starters once the data has been loaded to the system.

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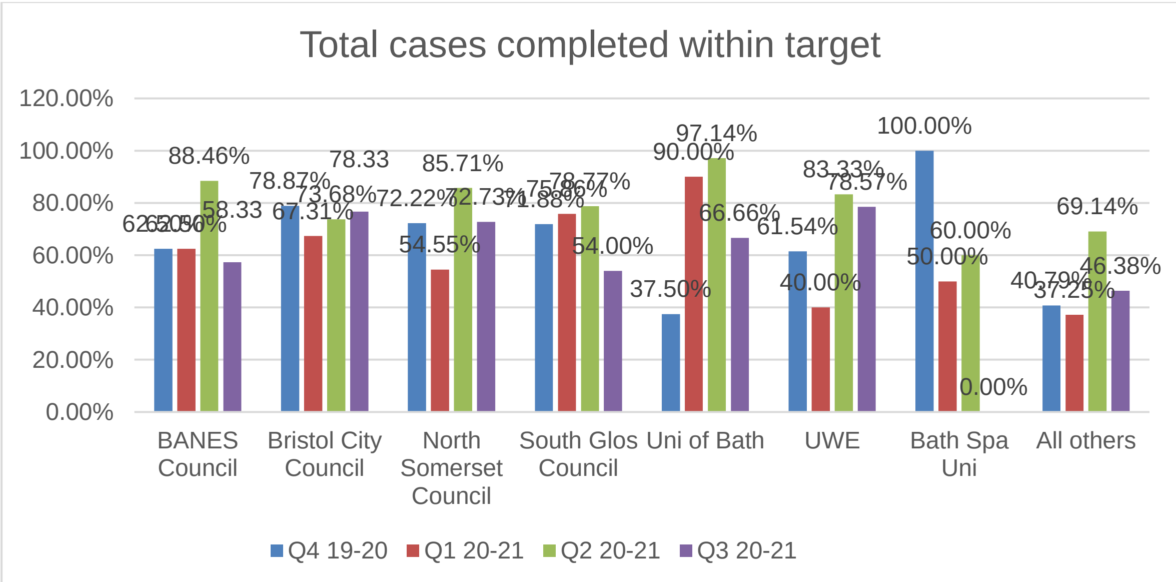
Completed leaver forms by employers for retirements within SLA targets.

Annex 1 – **Total cases - Percentage and number of cases completed within target**

	Q4 19-20	Q1 20-21	Q2 20-21	Q3 20-21
BANES Council	62.50%	62.50%	88.46%	58.33%
Bristol City Council	78.87%	67.31%	73.68%	78.33%
North Somerset Council	72.22%	54.55%	85.71%	72.73%
South Glos Council	71.88%	75.86%	78.77%	54.00%
Uni of Bath	37.50%	90.00%	97.14%	66.66%
UWE	61.54%	40.00%	83.33%	78.57%
Bath Spa Uni	100.00%	50.00%	60.00%	0.00%
All others	40.79%	37.25%	69.14%	46.38%



Annex 2 – **Breakdown by case type within target**

Within target	Retirements		
	Cases	Within	%
BANES Council	24	14	58.33%
Bristol City Council	60	47	78.33%
North Somerset Council	11	8	72.73%
South Glos Council	50	27	54.00%
Uni of Bath	6	4	66.66%
UWE	14	11	78.57%
Bath Spa Uni	1	0	0.00%
All others	138	64	46.38%

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Annex 1 – TPR Errors by Member Numbers

	September 2020				December 2020				
	Member Records	**TPR Errors**	**% Errors**	**Data Score**	**Member Records**	**TPR Errors**	**% Errors**	**Data Score**	**Trend**
ACTIVE	37523	506	1.35%	98.65	38249	317	0.83%	99.17	▲
UNDECIDED	3801	350	9.21%	90.79	5318	295	5.55%	94.45	▲
DEFERRED	42573	4378	10.28%	89.72	42387	3784	8.93%	91.07	▲
PENSIONERS	32506	206	0.63%	99.37	32813	275	0.84%	99.16	▼
DEPENDANTS	4927	99	2.01%	97.99	4950	119	2.40%	97.60	▼
FROZEN	3862	1301	33.69%	66.31	3783	1105	29.21%	70.79	▲
TOTALS	125192	6840	5.46%	94.54	127500	5895	4.62%	95.38	▲

Annex 2 – Outstanding Queries by Type

	September 2020		December 2020		
	TPR Errors	**%**	**TPR Errors**	**%**	**Trend**
Age 75 exceeded LGPS eligibility issue	63	0.84%	64	0.99%	▼
CARE pay for 2014-2015 required	37	0.49%	17	0.02%	▲
CARE pay for 2015-2016 required	35	0.47%	18	0.28%	▲
CARE pay for 2016-2017 required	36	0.48%	26	0.40%	▲
CARE pay for 2017-2018 required	67	0.90%	46	0.72%	▲
CARE pay for 2018-2019 required	119	1.59%	60	0.93%	▲
CARE pay for 2019-2020 required	160	2.14%	83	1.29%	▲
Casual hours data required	8	0.11%	7	0.11%	▲
Historic refund case	617	8.25%	537	8.35%	▲
Leaver form required	242	3.23%	182	2.83%	▲
Correct Forenames required	11	0.15%	11	0.17%	▲
Correct gender required	1	0.01%	4	0.06%	▼
Correct NINO required	163	2.18%	167	2.60%	▼
Correct address required	5900	78.86%	5179	80.51%	▲
Correct title required ie Miss or Mr	6	0.08%	2	0.03%	▲
Pay Ref required	2	0.03%	3	0.04%	▼
Date joined fund	0	0%	1	0.01%	▼
Data required from a previous employer	15	0.20%	26	0.40%	▼
Grand total	**7482**	**100**	**6433**	**100**	▲

Common Data
Scheme Specific Data

Annex 3 – Outstanding TPR by status

	TPR Errors September 2020	%	TPR Errors December 2020	%
1 ACTIVE	**625**	**100%**	**375**	**100**
Age 75 exceeded LGPS eligibility issue	0	0%	1	0.27%
CARE pay for 2014-2015 required	33	5.29%	14	3.73%
CARE pay for 2015-2016 required	30	4.81%	15	4.00%
CARE pay for 2016-2017 required	28	4.48%	17	4.53%
CARE pay for 2017-2018 required	51	7.82%	32	8.53%
CARE pay for 2018-2019 required	103	16.48%	44	11.73%
CARE pay for 2019-2020 required	142	22.72%	73	19.47%
Casual hours data required	5	0.81%	3	0.80%
Correct address required	218	34.88%	139	37.07%
Correct NINO required	3	0.49%	10	2.67%
Correct gender required	0	0%	2	0.53%
Pay Ref required	1	0.17%	2	0.53%
Leaver form required	3	0.49%	7	1.87%
Data Required from a previous employer	8	1.28%	16	4.27%
2 UNDECIDED	**407**	**100%**	**337**	**100**
Age 75 exceeded LGPS eligibility issue	3	0.74%	0	0.00%
CARE pay for 2014-2015 required	4	0.98%	3	0.89%
CARE pay for 2015-2016 required	5	1.23%	3	0.89%
CARE pay for 2016-2017 required	8	1.97%	9	2.67%
CARE pay for 2017-2018 required	15	3.69%	13	3.86%
CARE pay for 2018-2019 required	16	3.93%	16	4.75%
CARE pay for 2019-2020 required	18	4.42%	10	2.97%
Casual hours data required	3	0.74%	1	0.30%
Correct address required	88	21.62%	93	27.60%
Leaver form required	238	58.48%	174	51.63%
Pay Ref required	1	0.25%	1	0.30%
Correct NINO required	2	0.48%	4	1.19%
Date joined fund required	0	0%	1	0.30%
Data Required from a previous employer	6	1.47%	9	2.67%
4 DEFERRED	**4413**	**100%**	**3824**	**100**
Age 75 exceeded LGPS eligibility issue	7	0.16%	8	0.21%
Correct address required	4359	98.78%	3767	98.51%
Correct NINO required	46	1.04%	46	1.20%

5 PENSIONERS	**207**	**100%**	**277**	**100**
Correct address required	204	98.55%	273	98.56%
Correct gender required	1	0.48%	2	0.72%
Correct NINO required	2	0.97%	2	0.72%
6 DEPENDANTS	**100**	**100%**	**122**	**100**
Correct address required	35	35%	63	51.64%
Correct title required ie Miss or Mr	5	5%	1	0.82%
Correct Forenames required	0	0%	2	1.64%
Correct NINO required	60	60%	56	45.90%
9 FROZEN	**1728**	**100%**	**1498**	**100**
Age 75 exceeded LGPS eligibility issue	53	3.09%	55	3.67%
CARE pay for 2017-2018 required	0	0%	1	0.07%
Correct Forenames required	9	0.52%	9	0.60%
Correct title required ie Miss or Mr	1	0.06%	1	0.07%
Correct address required	996	57.62%	844	56.34%
Correct NINO required	50	2.89%	49	3.27%
Historic refund case	617	35.71%	537	35.85%
Data Required from a previous employer	1	0.06%	1	0.07%
Leaver form required	1	0.06%	1	0.07%
Grand Total	**7482**	**100%**	**6433**	**100%**

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APPENDIX 5

Late Payers to 31st December 2020

Employer	Payroll Month	Days late	Cumulative occasions	Amount £	Significance	Reason / Action
Weston Support Services	October	51	2	121.89	Days	Employer has been reminded of their obligations to pay contributions in a timely manner but continues to pay in bulk payments. December was paid 10 days early.
Weston Support Services	November	21	3	121.89	Days	As above
Nobilis Care West Ltd	November	14	1	393.27	Days	December paid 14 days early.
				637.05	**Over The 3 Months**	
Total Contributions in Period (excluding deficit payments)				41,325,704	Late payments value as a % of total = 0.001%. Late Payments received from 2 out of 410 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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	AVON PENSION FUND/B&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**	**By**	**Last date for next stage Appeal**	**Note**
1	Ill Health Retirement	30/11/2020	EMP	30/01/2021	No	12/02/2021	UP	Employer	N/A	Revised Ill Health Retirement Tier Awarded
1	Maladministration	20/01/2021	APF	19/03/2021				APF Technical & Compliance Advisor		

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	26 MARCH 2021	AGENDA ITEM NUMBER
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 28 FEBRUARY 2021 (2) CASHFLOW FORECAST	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 Summary Financial Accounts: Year to 28 February 2021

Appendix 1A Summary Budget Variances: Year to 28 February 2021

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 11 months to 28 February 2021. 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 11 months to 28 February 2021.

2.1 The Cash Flow Forecast at 28 February 2021.

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 11 months to 28 February 2021 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2021 is for expenditure to be £839,500 below budget.

4.3 Within the directly controlled Administration budget expenditure is forecast to be £548,295 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. There are further underspends relating to communications and information systems.

4.4 In the part of the budget that is not directly controlled, the forecast for the year is an underspend of £291,205. This underspend is a combination of a predicted overspend of £147,000 relating to actuarial costs offset by a larger predicted underspend of £383,500 relating to Brunel Management Fees. There are further underspends relating to recruitment of a new independent member and the associated recruitment of a new Pension Board member.

4.6 We do not forecast a variance for investment management fees as they are based on asset values. However, the budget included estimates for performance fees, pre pandemic, which have not been incurred. This accounts for most of the actual reduction in fees year to date.

4.7 Explanations of the most significant variances are contained in Appendix 1A to this Report.

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 28 February was an inflow of c£14m against a budgeted inflow of c£1.4m for the same period resulting in a £12.6m higher inflow than originally predicted. The higher inflow was due to higher than expected future service contributions (£6.9m) and a positive transfer in/out to the fund (£3.4m), which due to its nature, is not predicted.

5.4 It is currently predicted that a combination of higher than predicted future service contributions (£7.5m) and a positive contribution of transfers in/out of the fund (£3.7m) will lead to a positive cashflow of £13.8m more than the original prediction in the Service Plan for the year to 31 March 2021.

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.

Contact person	David Richards Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2021

	11 Months To End 28th February			FULL YEAR 2020/21		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	25,922	9,102	(16,820)	28,280	9,929	(18,351)
Administration Costs	81,718	68,617	(13,101)	89,147	54,518	(34,629)
Communication Costs	132,067	75,178	(56,889)	144,073	84,326	(59,747)
Payroll Communication Costs	98,696	95,644	(3,052)	107,669	104,339	(3,330)
Information Systems	343,604	562,320	218,716	374,841	339,903	(34,938)
Salaries	2,401,902	2,025,666	(376,236)	2,620,255	2,209,818	(410,437)
Central Allocated Costs	493,765	530,898	37,133	538,652	538,789	137
Miscellaneous Recoveries/Income	(202,125)	(147,027)	55,098	(220,500)	(207,500)	13,000
Total Administration	**3,375,549**	**3,220,398**	**(155,151)**	**3,682,417**	**3,134,122**	**(548,295)**
Governance & Compliance						
Investment Governance & Member Training	436,150	366,042	(70,108)	475,800	476,255	455
Members' Allowances	38,573	21,826	(16,747)	42,080	42,080	0
Independent Members' Costs	53,167	28,174	(24,993)	58,000	47,735	(10,265)
Compliance Costs	520,603	641,524	120,921	567,930	712,000	144,070
Brunel Expenses	22,917	14,821	(8,096)	25,000	17,000	(8,000)
Compliance Costs recharged	(183,334)	(186,908)	(3,574)	(200,000)	(200,000)	0
Total Governance & Compliance	**888,076**	**885,478**	**(2,598)**	**968,810**	**1,095,069**	**126,259**
Pensions Board	**41,250**	**9,072**	**(32,178)**	**45,000**	**11,049**	**(33,951)**
Global Custodian Fees	61,417	43,608	(17,810)	67,000	67,000	0
Brunel Management Fees	1,498,750	1,251,487	(247,263)	1,635,000	1,251,487	(383,513)
Investment Fees	26,446,988	13,724,098		28,851,260	18,244,098	
Total Investment Fees	**28,007,155**	**15,019,192**	**(265,073)**	**30,553,260**	**19,562,585**	**(383,513)**
NET TOTAL COSTS	**32,312,030**	**19,134,141**	**(454,999)**	**35,249,487**	**23,802,825**	**(839,500)**

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Appendix 1A

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
Administration costs	(27,500)	Training for Investments Team
Communication costs	(45,000)	Climate Change Policy Campaign underspent. This is due to some costs being paid out of the previous years budget and there has been less use of external agencies than anticipated
Salaries	(410,437)	Reduced salaries expenditure due to delays in filling vacant posts against budget in Benefits team
Information Systems	(30,000)	Underspend due to MSS Hosted Option not taken up and systems review cost proposal not to be undertaken this year
Other variances	(13,358)	
Administration	**(548,295)**	
Independent members costs	(10,000)	Recruitment of independent member delayed
Compliance Costs	147,000	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
Pensions Board	(25,000)	Pension Board Recruitment
Brunel Management Fees	(383,513)	Underspend because actual costs from Brunel have come in below forecast and pace of transition slowed.
Other variances	(19,692)	
Expenditure outside direct control	**(291,205)**	
Total	**(839,500)**	

***() 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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Appendix 2

Cash Flow Forecast

		ELEVEN MONTHS TO 28TH FEBRUARY 2021			FULL YEAR 2020/21		
		Forecast Per Service Plan	Actual	Variance	Forecast Per Service Plan	Out-turn Forecast	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Benefits Outflows							
Benefits	Pensions	(143,040)	(147,643)	(4,603)	(156,044)	(161,065)	(5,021)
	Lump sums	(28,212)	(22,475)	5,737	(30,777)	(24,519)	6,258
Total Benefits Outflows		**(171,252)**	**(170,118)**	**1,134**	**(186,821)**	**(185,583)**	**1,238**
Inflows							
Deficit recovery		3,664	4,141	477	3,997	4,518	521
Deficit recovery - paid in advance		44,891	44,891	0	44,891	44,891	0
Future service Contributions		87,593	94,484	6,891	95,556	103,074	7,518
Future service Contributions - paid in advance		46,082	46,082	(0)	46,082	46,082	0
Total Contributions		**182,230**	**189,598**	**7,368**	**190,525**	**198,564**	**8,039**
Net Cash Flow (excluding Administration & Investment costs)		**10,978**	**19,480**	**8,502**	**3,704**	**12,981**	**9,277**
Investment Income received as cash		0	40	40	0	44	44
Net Transfers In & Out (budgetted as zero)		0	3,373	3,373	0	3,680	3,680
Administration costs		(9,552)	(8,842)	710	(10,420)	(9,645)	775
Net Cash Flow/(Out-Flow)		**1,426**	**14,052**	**12,626**	**(6,716)**	**7,059**	**13,775**

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 March 2021**
TITLE:	**WORK PLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Committee Work plan** **Appendix 2 – Investments Panel Work plan** **Appendix 3 – Training Programme 2019-21**	

1 THE ISSUE

1.1 Attached to this report is the 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.

1.2 The provisional training programme for 2021/22 is included as Appendix 3.

1.3 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 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 2021/22 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. Following participation in the National Knowledge Assessment conducted by Hymans Robertson LLP a training plan has been put together based on the recommendations of the assessment, which covers the requirements of the CIPFA Knowledge & Skills Framework.

5 FUTURE MEETING DATES

5.1 Pension Committee meetings as currently scheduled:

2021	2022	2023
26 March 25 June 24 September 10 December	25 March 24 June 23 September 16 December	24 March 23 June 22 September 15 December

5.2 Investment panel meetings as currently scheduled:

2021
26 February 28 May 10 September 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.

Contact person	Carolyn Morgan, Governance and Risk Advisor, 01225 395240
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

Committee Workplan	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**
Quarterly Items								
PB minutes								
Brunel Update								
Report on Investment Panel Activity								
Review of Investment Performance (including Brunel Portfolios)								
Update on Legislation								
Pension Fund Administration –Performance Indicators and Risk Register								
Budget & Cash flow Monitoring								
Annual Items								
Annual Review of Risk Register								
Budget and Service Plan								
Treasury management Policy								
Annual Employer Update								
Roles & Responsibilities of the Committee, Governance Compliance Statement								
Annual Review of Investment Strategy & Performance								
Brunel Corporate update (presentation by Brunel)								
Annual Responsible Investing Report								
Annual Review of Risk Management Strategies								
Interim valuation Results / Section 13								
FRC Stewardship Code								
Review of Admin Strategy								
Recommendation from Panel on Equity allocations								
Recommendation from Panel on Risk Appetite								
Review of FSS								
2022 Valuation and FSS								
Review of ISS								
To be circulated outside of Meetings								
CMA Order Compliance (for Investment Consultant)								
Noting of Final Accounts 2018/19								
Approval of Committee's Annual Report to council & PB Annual Report for noting								
Training Requirements								
Actuarial Methods & Valuation - Workshop 1								
Admin Strategy & Governance - Workshop 2								
Investment Performance & Risk Management- Workshop 3								

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Appendix 2

Investment Panel Workplan	Feb-21	May-21	Sep-21	Nov-21	Feb-22	May-22	Sep-22	Nov-22	Feb-23	May-23	Sep-23	Nov-23
Quarterly monitoring Items												
Review performance & RM Framework												
Transition of assets - update												
Annual Items												
Annual Risk Management review												
Strategic items												
Brunel Private Market presentation												
Decision to top up Private Markets Cycle 2												
Legacy assets management												
Brunel CIO presentation (vision and strategic priorities)												
Equity portfolio allocations project												
- workshop 1												
- workshop 2												
Brunel Listed markets update												
Risk Appetite - Strategic review ahead of 2022 valuation												
Decision of Private Market allocations for Cycle 3												
Review of LDI triggers given new liability benchmark (post 2022 valuation)												
Low risk corporate bond strategy – updated benchmark outcome (post 2022 valuation)												

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Appendix 3
Committee Training Plan

Type of training	Date	Hymans NKA Recommendations
Workshop 1	Sep-21	The impact of COVID-19 on the Fund + actuarial methods, McCloud impact, exit credits and Section 13 Valuation training sessions – purpose, role, outcomes etc. 2022 Actuarial Valuations
Workshop 2	Dec-21	Pensions administration + the role of the Board/Committee Pensions Governance
Workshop 3	Jun-22	Investment performance and risk management

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