

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 23rd June, 2023

Present:- Councillors Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Toby Simon and Chris Dando

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Charles Gerrish (Academies), William Liew (HFE Employers), Pauline Gordon (Independent Member), John Finch (Independent Member), Jackie Peel (Independent Member) and Wendy Weston (Trade Unions)

Co-opted Non-voting Members: Councillor Kate Kelliher (Parish & Town Councils)

Advisors: Steve Turner (Mercer), Paul Middleman (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Claire Newbery (Pensions Operation Manager), Carolyn Morgan (Governance and Risk Advisor), Nicky Russell (Technical & Compliance Advisor), Julia Grace (Pensions Valuation Advisor) and Jeff Wring (Director - One West)

1 EMERGENCY EVACUATION PROCEDURE

The Chairman drew attention to the emergency evacuation procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Joanna Wright had sent her apologies to the Committee.

Councillor Toby Simon was present at the meeting virtually via Teams to view the proceedings.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Four members of the public had submitted questions to the Committee. They and their responses are attached as online appendices to these minutes.

Councillor Steve Pearce commented that he was disappointed that the Fund has not been that vocal about how much engagement work it does take part in. He added that he hoped that in the future they would explain their processes in more detail and make the case clear for doing the work that they do.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 17TH MARCH 2023

The Committee **RESOLVED** that the minutes of the meeting on 17th March 2023 be confirmed as a correct record and signed by the Chair.

8 PENSION BOARD MINUTES: 23RD MAY 2023

The Committee **RESOLVED** to note the minutes of the Board meeting held on 23rd May 2023.

9 ANNUAL GOVERNANCE REVIEW

The Governance and Risk Advisor introduced the report to the Committee. She explained that they were seeking an amendment to the Terms of Reference (ToR) for the Committee with regard to its quorum.

She stated that the ToR currently reads 'The quorum of the Committee shall be 5 voting members who shall include at least one member from Bath & North East Somerset Council'.

She said that the proposed amendment was as follows 'The quorum of the Committee shall be 5 voting members who shall include at least one member **not** from Bath & North East Somerset Council'.

She added that this is to ensure that any decision taken is not just by B&NES members. She informed the Committee that the revised ToR will be put forward for approval by Council in July.

She stated that all members of the Committee are encouraged to undertake training to ensure they can discharge their responsibilities and that the SAB's Good Governance Review and The Pensions Regulator's (TPR) Code of Practice for public sector pension funds requires greater disclosure of member training and requires all members to attain a satisfactory level of knowledge in order to discharge their duties. She added that as a result all Committee members are required to undergo Hyman's LGPS Online Learning Academy modules within a year of when they are appointed to the Committee and every three years thereafter.

The Committee **RESOLVED** to:

- i) Note the roles and responsibilities of the members, advisors and officers.

- ii) Approve the Terms of Reference of the Committee and Investment Panel.
- iii) Approve the Scheme of Delegation.
- iv) Approve the Governance Compliance Statement, including draft Representation Policy.
- v) Note the amendment to the Training Policy.
- vi) Note the Decision Making Matrix.
- vii) Agree the independent member representation of the Brunel Working Group.
- viii) Agree the substitute of Brunel Oversight Board.
- ix) Agree the member(s) to represent the fund on the Local Authority Pension Fund Forum.
- x) Agree to delegate the drafting of the Annual Report to Council to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

10 ADMIN REPORT & SERVICE IMPROVEMENT PLAN

The Head of Pensions introduced this item to the Committee and highlighted the following sections from within it.

He informed them that work on the rebrand of the Fund had begun and that they were keen to involve Committee members in the project. He added that this would involve a logo and colour scheme change and amendments to the language and tone of voice used in communications to make understanding simpler for members of the Fund.

Charles Gerrish asked officers to be mindful of any colour schemes that might prove challenging to those members with any visual impairments.

The Head of Pensions replied that they were aware of the need to make sure that the website remains as accessible as possible.

William Liew asked if officers had considered engagement with actual members of the scheme on this project.

The Head of Pensions replied that they were looking to engage with stakeholders where possible, especially on climate change matters.

The Chair asked officers to make sure that all Councillors were aware on this ongoing work.

Current state of APF organisation

Service quality is below SLAs agreed with the Pensions Committee, but within the targets set by CIPFA and The Pensions Regulator.

- 75% of members' service requests are completed within SLAs
- c.65% was achieved before the office return in Q4 2022 – since when further improvement has stalled

Service quality is limited by 4 key issues:

- high vacancy rate of c.16%
- elevated work load due to increased i-Connect data combined with a complex leaver-joiner process
- performance MI is insufficiently embedded in operational management
- there is limited digitisation with heavy manual processes

Councillor Kate Kelliher asked if there was a need to monitor smaller employers in more detail.

The Pensions Operations Manager replied that the SLAs were the same for all sizes of employers.

Wendy Weston referred to page 90 and asked a question relating to retirement cases and the number of active cases completed outside SLA.

The Pensions Operations Manager replied that the chart shown was to indicate the timeframe for when cases have been completed even though they were outside of the SLA.

Jackie Peel asked whether the backlog issues were in terms of standard cases or those of a more difficult nature. She also asked whether the receipt of better Management Information (MI) would improve the backlog issue.

The Pensions Operations Manager replied that there is a degree of the backlog that can be attributed to older, more difficult cases and that whilst these remain the figures are not likely to improve. She added that it was hoped that better MI would improve the figures in some way.

Charles Gerrish referred to Appendix 2, Annex 1 and asked if it was correct that the figure relating to Historic Refund Cases (478) should be the same for December 2022 and March 2023.

The Pensions Operations Manager replied that this was correct and that it was normally a small amount that was involved. She said that the Fund do try to trace the people involved as much as possible. She added that the software used offers no option to change the status.

Improvement objectives - 2025 – what good looks like

Service

- Meet service standards set by CIPFA, plus TPR requirements
- Achieve SLAs agreed with APF Pensions Committee – 90% in 2025
- Easy digital experience – with substantial uptake of My Pension Online
- All employer data exchanged electronically

Foundations

- Deliver all regulatory changes which benefit members, e.g. - McCloud, Dashboard, GMP
- Transformed digital platforms – for members, employers, APF staff
- MI drives insight and is embedded into operational decisions

People

- Pay rates are competitive for retention & recruitment of required talent
- Vacancy rate within normalised range of 4-8% within 12 months
- New operational structure embedded by year end
- Engaged workforce: keen to learn, keen to serve members

Key levers to improve people environment

- Improve salaries
 - We asked Aon to undertake an independent review of APF salaries comparing all roles vs similar public & private sector organisations. Aon recommended salary increases linked to roles – based on the external comparisons.
 - B&NES HR has approved the principle and aggregate of proposed salary increments. We now move into detailed implementation – with approval of each individual case. We expect salary changes to take effect from the July 2023 payroll.

Wendy Weston asked how much pay rates were proposed to increase by.

The Head of Pensions replied that on average they would increase by 8% for those approved roles.

- Fill vacant positions
 - Sorting Payroll - We have already hired the team leader – who has extensive private sector experience. We need to hire 1 Senior Officer & 1 Officer.
 - Hiring people with experience who can learn quickly and make a difference to service delivery, e.g. Officers & Seniors serving members and employers / Technical Leads.
 - Transformation - We need to hire a Change Programme leader who can drive digital transformation. We also need project leads who can work with the wider APF team.

The Chair asked how the Fund's vacancy position compared with others.

The Pensions Operations Manager replied that as far as she was aware all were facing similar struggles.

Wendy Weston queried whether a number of staff losses would be to London based Funds.

Nick Weaver commented that he felt that this was most likely as he was aware that they were targeting officers near retirement age and offering towards a 50% uplift in pay. He added that he advocated the Fund build their own team to have a strong future.

Key operational levers to meet service objectives

- Payroll: rebuild team and hire to fill vacancies
- Leaver process: fix and simplify
- MI: drive deeper insight and embed operationally
- Backlogs: identify and resolve
- Digital change & system investment

Change Programme

- 8 projects
 - Objectives for each project
 - Criteria for prioritising
 - Clear delivery plan
- Necessary projects absorb common resources – limiting capacity for transformation.
- Project prioritisation applied

Jackie Peel asked what the likely key blockages for the Fund would be not to make its desired progress.

The Head of Pensions replied staff vacancies and any new / unexpected regulations.

Jackie Peel asked if the Fund would be allowed to use consultants to aid their progress at all.

The Head of Pensions replied that this would be a possible option as a backstop position.

The Committee **RESOLVED** to note the service performance for the three months to 31 March 2023.

11 DEATH IN SERVICE POLICY

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

She explained that one of the risks for employers is the possible increase in liabilities arising when an active member dies as their beneficiary will receive a lump sum and spouse's or partner's pension earlier than would otherwise be the case.

She stated that if there is a strain, it can significantly increase the liabilities and will feed through into the funding plan at the next valuation. For small employers the higher costs can be difficult to manage especially when they occur close to the employer's exit from the Fund.

She informed the Committee that the feasible options to mitigate this risk were (i) captive insurance and (ii) 3rd party insurance and that maintaining the status quo would not manage the risk.

She said that the Actuary is proposing the Fund implements a captive insurance arrangement covering all employers within the Fund and that the Fund already has a similar arrangement for managing ill-health retirement costs for smaller employers.

She added that other LGPS use a range of options within this area of work.

Paul Middleman, Mercer said that this proposed arrangement was reasonable for all employers and considered it to be an optimum solution. He added that the decision would be kept under review.

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

The Committee **RESOLVED** to:

- i) Approve implementing a captive Death in Service arrangement within the Avon Pension Fund and for this to be reviewed after the next valuation
- ii) Note that a consultation with employers will be undertaken before the arrangement is implemented
- iii) Delegate updating the Funding Strategy Statement to include the captive arrangement to Officers.

William Liew abstained from voting.

12 REVIEW OF INVESTMENT STRATEGY & PERFORMANCE

The Investments Manager introduced the report to the Committee. He wished to highlight that the Committee had previously agreed to allocate an initial 3% (~£160m) of fund assets to a local impact portfolio.

He explained that the portfolio will be asset class agnostic but is expected to centre around local affordable housing and renewable infrastructure opportunities. He added that 'Local' in this context refers to the South West region.

He stated that officers are currently developing the governance framework that will specify how investment opportunities are assessed before entry into the portfolio. He added that elements of this portfolio may have to be managed outside of Brunel in which case Mercer would provide suitability advice for any prospective investments.

He informed the Committee that since agreeing the allocation, a number of compelling investment opportunities have arisen which officers are currently reviewing in consultation with multiple other Brunel partner funds.

He said that further information relating to 'live' investment opportunities and the local impact governance framework will be presented to the Investment Panel and Committee in due course.

Steve Turner, Mercer addressed the Committee and highlighted the following sections from within Appendix 3.

Funding level and risk

The funding level is estimated to have decreased marginally over the quarter to c. 95%, as the increase in the estimated value of the liabilities outweighed the increase in the value of assets.

The Value-at-Risk increased marginally over the quarter to £1,192m, but fell as a percentage of liabilities to 21.1%. The reversal in Q4 of the small increase in risk levels during Q3 means that the risk as a proportion of liabilities is broadly unchanged compared to one year ago.

Performance

Absolute returns for the global equity mandates compared to the strategic returns modelled at the strategy review in 2019 have been generally positive, with the exception of the most recently-incepted Paris-Aligned mandate, due to the timing of its point of inception.

The Diversified Returns and Multi-Asset Credit mandates have fallen short of expectations, largely due to negative performance versus the cash plus benchmarks in 2022. This was a year, however, where virtually all major liquid asset classes fell in value (except for commodities which have high carbon footprints).

Property and Secured Income have been mixed, however all of the Infrastructure and Private Debt assets have outperformed.

He informed the Committee that there were no parts of the portfolio that were causing undue concern.

He said that Mercer were working with officers within the Fund on a Risk Management Review, Climate Change Review and the Local Impact Portfolio.

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

13 ANNUAL EMPLOYER UPDATE

The Funding and Valuation Manager introduced this item to the Committee. She explained that the report provides the Committee with a summary of the employer base of the Fund, changes, current issues, funding strategy and covenant work.

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

14 UPDATE ON LEGISLATION

The Technical and Compliance Manager introduced the report to the Committee and highlighted the following areas from within it.

SCAPE Discount Rate

On 30 March 2023, the Chief Secretary to the Treasury issued a written ministerial statement that announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate had been reduced to a rate of 1.7% per annum above CPI, from the previous real rate of 2.4% per annum.

Whilst GAD reviews the actuarial factors to apply to the LGPS (and other public sector schemes), many calculations are currently suspended. These are mainly CETV's for transfers (including refund / transfer outs) and divorce.

This has implications for the administration team in terms of both member communications, and resource management for when the suspension is lifted.

Pension Dashboard

The Pension Dashboard Programme gathers pace with developments in a number of areas. The main development saw the Pensions Minister, Laura Trott make a statement on 2nd March 2023 announcing the Government's intention to legislate "at the earliest opportunity" to amend the scheme's connection deadlines, to allow more time to deliver the complex dashboards infrastructure.

It's not clear yet which schemes (including the LGPS) will be given an extension and how long this may be. Further details are expected prior to the summer recess.

Whilst there is potential for the Fund's connection date to be delayed, in the absence of any confirmation for the LGPS, the Fund is continuing its preparations towards meeting the necessary Pensions Dashboard requirements and awaits further

guidance from central bodies e.g. LGA in relation to what action LGPS Funds should be considering.

Charles Gerrish asked if there was any update on the Oasis consultation referred to on page 269.

The Group Manager for Funding, Investment & Risk replied that they had not heard anything further.

William Liew asked if the announcement regarding the SCAPE Discount Rate would add to the backlog problems within the work of the Fund.

The Technical and Compliance Manager replied that it would to some degree as some elements had been suspended for 2 – 3 months.

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

15 GOVERNANCE UPDATE

The Governance & Risk Advisor introduced the report to the Committee and drew their attention to the following sections.

Hymans LGPS Online Learning Academy (LOLA)

In order to meet the additional knowledge and skills requirements of SAB's Good Governance Review the Fund has introduced Hymans LGPS Online Learning Academy (LOLA). Committee members have agreed to complete all training modules within twelve months of becoming a Committee member and repeat the completion of the modules every three years.

Modern Gov Library

The decision has been made to suspend use of the Modern Gov library until its effectiveness can be reviewed. In the meantime all monitoring reports will form part of the main committee reports.

Quarterly Review of Risk Register

Following the quarterly review of the risk register there were no changes made.

The most critical risks are currently:

- NR01 – 'Ability to deliver admin service to members and employers within agreed standards' The current factors impacting this risk are set out in item 10 – Pension Fund Administration report.
- NR12 – 'Failure to achieve decarbonisation targets in the required timescales in accordance with climate change priorities' Government climate policies not moving fast enough or sufficiently enforced.

- NR05 – Failure to manage personal data in line with data protection regulations. Following an increase in the number of data breaches caused by enveloping errors and on the advice of Information Governance and Internal Audit the decision has been taken to stop all bulk printing and enveloping while the process is reviewed. Consultation with Information Governance & Internal Audit is also taking place to improve the process for providing members with activation keys for My Pension Online, following two data breaches.

The Committee **RESOLVED** to note the Committee & Investment Panel workplans, training programme, service plan & risk register.

The next meeting of the Committee will take place on Friday 22nd September 2023 at 10.00am.

The meeting ended at 12.10 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

This page is intentionally left blank

Avon Pension Fund Committee – 23rd June 2023

Public Questions

Elaine Ashley (Attending)

Question: I am making reference to Brunel Partnership actions in this question as your previous responses to questions have indicated that your actions are dictated by Brunel policy. Although I would highlight that it is for you to instruct Brunel what your policies are on investments not the other way around.

This question is in relation to the recent Client Earth lawsuit against Shell Oil board of directors. It is noted that Brunel sent a letter of support indicating that their position aligned with the arguments in the lawsuit. That is good – but not as good as being one of the investors actually bringing the suit which included London CIV, your equivalent in that region of the country.

Shell's net emissions had been calculated to fall by just 5% by 2030, which is a far cry from the net 45% reduction in group-wide emissions by the end of this decade ordered by a Dutch Court in May 2021. Shell had made a commitment to decrease fossil fuel emission by 55% through to 2030 (although with their poor progress, achievement of this seemed unlikely) but since this lawsuit commenced Shell have not only not responded but have now announced that they will be reversing their decision on that commitment and instead will maintain current levels of liquid fuel production through to 2030. Shell states that this to 'achieve cash flow longevity' . In other words financial profit now is all that counts.

[Analysis from Net-Zero Tracker this week](#) concluded that, at present, net-zero targets from the fossil fuel sector are “largely meaningless”. This is because they commonly exclude Scope 3 (indirect) emissions. Moreover, no fossil fuel major has a commitment to fully end its oil and gas activities.

In light of this shocking news do you still consider that engagement can be productive and that you can seriously have any influence on the major oil producers – other than pulling your investments and so damage their value?

Dan Lewin (Not Attending)

Question: As well as being a member of your pension scheme, I am a scared parent of two young children seemingly destined to live in a chaotic world destabilised as a result of runaway climate change. I would like to ask how you can justify not yet being fully divested from fossil fuel extraction industries? There are plenty of sustainable and ethical businesses and funds to invest in, many of which perform very well and I believe will only continue to see growth as more and more people realise the peril our world is in.

Personally I do as much as I can to make sure my money is a force for good and I would like to see the growing chunk of it that you hold doing just that. I hope humanity and rationality prevail in your investment decision making otherwise it may end up prevailing in my future pension switch choices. I have made similar choices with my other pension pots, my mortgage, utility providers, mobile phone contract and many more.

Richard Sleight (Not Attending)

Question: I would like to ask about divestment from fossil fuel companies. It is good to see that the fund plan to divest in the future, but I would like to urge you to divest from fossil fuel companies particularly as soon as possible so that the fund can be a good example to others and send a strong message to fossil fuel companies.

My question is therefore – why you are not divesting from fossil fuel companies earlier, and certainly by 2030?

Ian Watkins (Not attending)

Question: In my role a Bristol Unison Branch Climate Officer, I recently wrote to the Directors of Bristol City Leap to request that they open talks with Brunel PP (they are in the same building - 101 Victoria Street) with a view to discussing the forthcoming pipeline of investment opportunities in renewable energy generation schemes in Bristol and neighbouring local authorities.

Can I ask if Brunel PP/Avon Pension Fund can confirm they have been contacted by City Leap to open such discussions?

Response to Public Committee Statements – APF Committee 23 June 2023

Along with 10 other local government pension schemes across the South West, Avon Pension Fund (APF) is served by the Brunel Pension Partnership, an asset manager based in Bristol.

Brunel's climate policy reflects extensive input from all 10 local schemes including a strong consensus that blanket divestment is ineffectual in driving real world impact. However we do expect companies to demonstrate plans to transition to net zero 2050 or before, underpinned by tangible actions and evidence of progress. Companies with a mere verbal commitment without a credible delivery plan or those with no commitment will form no part of the portfolio beyond 2030.

Meantime APF continues to make tangible progress on climate. We have invested over £1.3 billion in Paris-aligned equity strategies, a further £570m in sustainable equities, and over £400m is committed to renewable infrastructure. To put this into perspective APF's holding in Shell is c. £6.5m or 0.1% of total assets. Aggregate fossil fuel exposure – across Energy, Financials, Industrials, Materials and Utilities – represents under 2.0% of total assets, largely with companies which own, operate, or finance transition enabling technologies and assets.

APF was disappointed to see a deceleration of prior commitments to reduce oil & gas output from Energy companies this year, but was encouraged by Brunel acting in concert with other UK pension schemes to vote against Shell directors at its AGM. The outcome of the vote and any steps taken by the companies in response to ongoing engagement will be shared in due course. Furthermore Brunel has recently announced that it will convene a meeting (via the UK Asset Owner Roundtable forum) of major fund managers over a perceived misalignment between long-term interests and voting intentions, with European oil and gas majors as the focus.

Finally we are reviewing our climate goals and policies with a view to setting more ambitious targets before the end of 2023. We will welcome your input as stakeholders in this process and we will reach out in due course to seek your views.

[ENDS]

This page is intentionally left blank

Response to Public Committee Statement – APF Committee 23 June 2023

Officers from the Brunel partner funds received a presentation from the SW Net Zero Hub (the Hub) last week. The Hub is tasked with raising private market capital for public asset investments in line with Government policy. The Hub will be meeting stakeholders from Bristol City Leap in the coming weeks alongside WECA and Officers have requested they be kept apprised of all developments.

We understand that Bristol City Leap are initially looking to raise c.£200m of private capital via bonds to fund projects in solar, wind, heat networks and other energy efficiency measures.

The Fund has a 3% allocation to local impact investments and so we intend to maintain a dialogue with colleagues at the Hub to identify investment opportunities that are scalable and could qualify for entry into the Fund's local impact portfolio. We are currently developing the governance process that will help decision making around specific investment opportunities and will endeavour to keep stakeholders informed of the Fund's intentions.

[ENDS]

This page is intentionally left blank