

Avon Pension Fund Committee

Date: Friday, 22nd March, 2024

Time: 10.00am

Venue: Kaposvar Room - Guildhall, Bath

Bath and North East Somerset Councillors: Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Toby Simon, Chris Dando and Joanna Wright

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), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member) and Jackie Peel (Independent Member)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Councillor Kate Kelliher (Parish & Town Councils)

Chief Executive and other appropriate officers

Press and Public



Mark Durnford

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NOTES:

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

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

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

3. Recording at Meetings:-

The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control. Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators. We request that those filming/recording meetings avoid filming public seating areas, children, vulnerable people etc; however, the Council cannot guarantee this will happen.

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4. Public Speaking at Meetings

The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two full 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. Emergency Evacuation Procedure

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6. 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, 22nd March, 2024

at 10.00am in the Kaposvar Room - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 5.

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 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 4.4 Appendix 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 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: 15TH DECEMBER 2023 (Pages 7 - 20)

8. PENSION BOARD - DRAFT MINUTES - 20TH FEBRUARY 2024 (Pages 21 - 28)

The Committee is asked to note the draft minutes of the meeting of the Pension Board held on 20th February 2024.

9. AVON PENSION FUND - NEW MEMBER WEBSITE

The Committee will receive a verbal update on this item.

10. 2024-27 SERVICE PLAN & BUDGET (Pages 29 - 72)

The purpose of this report is to present to the Committee the 3-year plan and budget for the period 2024-27.

11. PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT (Pages 73 - 84)

The purpose of this report is to present the Fund's administration performance for the three months to 31st December 2023 vs key performance indicators (KPI's).

12. TREASURY MANAGEMENT POLICY (Pages 85 - 92)

The Committee is asked to approve the Fund's Treasury Management Policy each year. It was last approved in March 2023. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.

13. INVESTMENT STRATEGY STATEMENT 2024 (Pages 93 - 116)

The Investment Strategy Statement (ISS) was last revised in March 2023 following the asset allocation review. The ISS is being updated to include changes arising from the review of the climate targets and the Equity Protection Hedge which was completed in 4Q23.

14. BRUNEL POLICY POSITION: ACTIVITY-BASED EXCLUSIONS (Pages 117 - 132)

The purpose of this paper is to invite discussion from Committee members on whether they deem the limited use of activity-based exclusions to be consistent with the Fund's overarching approach to responsible investment. Committee views will then be fed back to Brunel who will update their policy position based on the consensus views of all underlying client funds.

15. OVER & UNDER PAYMENTS POLICY (Pages 133 - 156)

The Fund has identified the need to put in place a clear policy to establish the principles of rectification for members where there has been either an overpayment or underpayment of pension benefits. The policy is attached to this report for approval.

16. UPDATE ON LEGISLATION (Pages 157 - 164)

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

17. GOVERNANCE UPDATE (Pages 165 - 186)

The amended Terms of Reference for the Committee & Investment Panel for approval is attached as Appendix 1. The risk register which has been reviewed and updated is attached as Appendix 2 and 3. The work plan for the Committee is attached as Appendix 4 and the provisional training programme for 2024 is included as Appendix 5.

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, 15th December, 2023

Present:- Councillors Paul Crossley (Chair), Toby Simon, Chris Dando and Joanna Wright

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

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

Advisors: Steve Turner (Mercer) and Hill Gaston (Mercer)

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

32 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the emergency evacuation procedure.

33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Shaun Stephenson-McGall and Councillor Mike Drew had sent their apologies to the Committee.

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 STATEMENTS, PETITIONS OR QUESTIONS

Elaine Ashley addressed the Committee, her statement is set out below.

I am aware that you will be making the decision at this week's meeting on resetting the date for your net zero commitment for investments.

I would firstly like to acknowledge that this is a significant step. It demonstrates that you recognise the need to devote time to looking at the impact of the fund on the

climate and to monitor this on an ongoing basis. In addition, I acknowledge that you are ahead of most public sector pension funds in this area.

However, I took part in some of the engagement activity both as a member and as a Unison Union rep and I was concerned that there was a strong presentation of the risks - as you see them - of bringing the net zero date further forward, but no representation to humanity of the risks of not doing this. It did not feel like a balanced debate and there was minimal opportunity for detailed discussions and presentation of alternative view points.

There is no easy answer to this situation and your arguments to as to why 2035 or 2030 is risky as well as the benefits of supporting companies who are on the path to divestment made sense. I just did not see a detailed benefits analysis comparing the other risks and weighing them up to come to a truly informed decision.

I hope that when you next review this date you will consider more honest engagement and debate and bring in some alternative viewpoints.

The Group Manager for Funding, Investment & Risk replied that they will look to build on the work carried out in the recent engagement sessions and use additional analysis in the future.

The Chair, on behalf of the Committee, thanked Elaine for her statement.

37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

38 MINUTES: 22ND SEPTEMBER 2023 (PUBLIC & EXEMPT)

The Committee **RESOLVED** that the minutes of the meeting on 22nd September 2023 be confirmed as a correct record and signed by the Chair.

39 PENSION BOARD - DRAFT MINUTES - 7TH DECEMBER 2023

The Committee **RESOLVED** to note the minutes of the Board meeting held on 7th December 2023.

40 CLIMATE POLICY REVIEW

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

- In March the Committee approved Phase 1 of the 2023 strategic investment review, which confirmed a diversified asset allocation with robust risk management to underpin more predictable employer contribution rates.
- Phase 2 of the review focuses on the Fund's net zero target, aligned with short and medium-term climate objectives.
- The review examines whether the Fund can raise its ambition by bringing forward the current 2050 net zero target date, recognising the urgent and material financial risk climate change poses. The aim is to set targets that will

drive real world change whilst achieving the appropriate risk/return required to meet our overriding investment objective.

- Extensive engagement has taken place with various stakeholders throughout this process including elected Councillors, employers, and
- trade unions, as well as a member survey.
- In addition, the Committee held a workshop in October to discuss the implications of the climate analysis undertaken by the Fund's investment consultant in terms of the impact on the investment strategy.
- There was a broad consensus across the workshop, engagement sessions, and member survey to bring forward the net zero target date and the proposals are set out for the Committee to consider and approve.

The Head of Pensions addressed the Committee and summarised the engagement sessions and member survey results.

Stakeholder engagement sessions

- 11 sessions
- 172 attendees
- 8 different stakeholder groups

Topics covered in the engagement sessions:

- our approach to responsible investment
- our climate policy
- carbon reduction progress to date
- how our Paris-aligned investments work
- our fossil fuel exposure
- our approach to engagement and divestment

The general consensus

- There is broad support for us to divest by 2030 from companies not aligning with net zero 2050.
- Many stakeholders favoured driving real-world impact and seek greater ambition on climate change.
- There is however broad concern about protecting the fund and sensibly managing investment risks.
- Broadly consensus in the engagement sessions converges on seeking to achieve net zero 2040-2045.

Member survey

- 5,210 members completed the survey (11% response rate)
- Majority of respondents aged between 55 – 74
- 3,876 people responded that it was 'very important' or 'important for the Avon Pension Fund to take account of climate change when making investment decisions.
- When asked about the level of investment risk we should take when considering net zero targets 39% responded that we should make a medium investment risk of net zero 2040-45

- 67% replied that it was important to both divest and engage with companies that are not aligning with net zero by 2050 or before.

Hill Gaston, Mercer addressed the Committee and highlighted the following sections from their report 'Avon Pension Fund - Net Zero Review'.

Net Zero Approach - Key considerations & levers

- Portfolio constructed from companies / assets aligned with a low carbon transition.
- Investment in climate solutions that support economy wide decarbonisation.
- Front-loaded portfolio decarbonisation with a focus on managing transition risk.
- It is challenging to maximise every net zero approach as there are trade-offs associated. When applied in isolation, they may lead to unintended outcomes from a financial and sustainability perspective.
- Based upon the Fund's objectives and commitments to stakeholders, it is important to establish priorities and strive for balance which minimises financial implication (risk, return, diversification) and supports real world impact.

Executive summary - Key areas of progress to date:

- Listed Equity decarbonisation is ahead of target.
- Good progress on total fund climate solutions versus target (to have 30% invested in sustainable/transition aligned investments by 2025).

Four strategic pillars

- Extending portfolio coverage of carbon analysis
- Accelerating targets
- Engagement
- Selective divestment

Building net zero portfolios - Summary of Analysis

We consider that the net zero 2045 or net zero 2050 portfolios achieve a sweet spot between balancing portfolio decarbonisation and meeting fiduciary duty of the Fund. This may change in the future should more companies adopt earlier net zero targets. Comparing 2050 to 2045 depends on the decarbonisation pathway, e.g. a 2045 target with a more gradual pathway may be preferable.

Fossil fuels – to divest or not to divest?

- Potential benefits of divestment / Trade-offs
 - Risk & decarbonisation: reduce portfolio exposure to 'stranded' assets and carbon intensity.

- Escalation tool when engagement fails and companies are too slow to transition.
- Signal to market about Fund's ambition and views.
- Increase cost of doing business if enough investors deny fossil fuel companies access to capital.

-
- Not sufficient for net zero as other sectors / companies are also carbon intensive.
 - Engagement more effective when tackling systemic and non-diversifiable issues like climate change?
 - Limits real world impact if no longer supporting high emitters to transition through engagement.
 - Inconsistent with fiduciary duty if reduced opportunity set impacts returns?
 - How to implement in a pooling context?

Divestment / exclusions approach should be reflected in Avon policy. Potential to engage other Partner Funds to form a collective approach for Brunel to implement.

The Chair asked if any of the outcomes from the recent COP 28 meeting had an impact on the work of the Fund.

Hill Gaston replied that he did not initially think so and that the main statement that came out of the meeting was that there is to be a phasing out of the use of fossil fuels. He added that he believed that the Fund already has a credible approach to fossil fuels in place.

Jackie Peel asked how a judgement will be made regarding divestment.

The Group Manager for Funding, Investment & Risk replied that Brunel were key to this decision and have the same ambition as the Fund. She said that there would be a mechanism put in place for an annual review to be held and that this would include third party analysis.

She added that the Fund could seek to set a forward criteria that sets out their expectations and consider divesting from companies that are not aligned to their views by 2030.

Hill Gaston suggested that Brunel be tasked with constructing some alignment definitions.

The Group Manager for Funding, Investment & Risk said that a further report on this subject would come to the Committee in 2026 following annual reviews that are carried out by Brunel and officers from the Fund.

Councillor Joanna Wright asked what impact the Fund has on decisions made within the pool.

The Group Manager for Funding, Investment & Risk replied that when the Brunel pool was originated the founding concept was responsible investing and that climate has been a focal point throughout the last seven years.

She added that there was not always a consensus from across the ten clients in the pool, but this was increasing and said that they were at the forefront of what they want to achieve. She stated that the introduction of the Sustainable Equities portfolio and the Paris Aligned portfolio was an important step on behalf of the Fund.

She explained that the Fund can hold Brunel to account and that they in turn can hold the managers to account.

Councillor Wright asked what the Fund were able to do if they are unhappy about a particular investment.

The Group Manager for Funding, Investment & Risk replied that the Investment Strategy will evolve over time and that their level of investment in low carbon assets is already quite high. She added that through the recent workshop Brunel had learnt of the current ambitions of the Fund.

The Head of Pensions reminded the Committee that Brunel have a broad number of arrangements in place and so, if necessary, there were choices available for the Fund, from standard index funds to those focused on carbon reduction.

Councillor Toby Simon commented that he was comfortable with the recommendations that were being proposed and stated that he would not want the Fund to be in a less focussed pool.

John Finch said that he believed that there were still advantages and that more can be achieved by being in a pool than working on our own. He said that by doing so it will enable us to influence other pool members and that we need to tell the Government how good this arrangement is.

Councillor Chris Dando commended the officers and Mercer for a good report and proposed the recommendations within it.

Councillor Toby Simon seconded the proposal.

Councillor Joanna Wright referred to section 8.2 of the report where it states that 'each year the Fund will receive a climate analysis from Mercer' and explained to the Committee that she would like a meeting to take place in which she and the Chair discuss climate issues further with Professor Steve Keen and Carbon Tracker as they have been recently critical of Mercer's analysis reports.

The Chair replied that he would discuss with officers a timescale to setup an online meeting and then issue an invite to the rest of the Committee for others to attend if they so wish.

The Committee **RESOLVED** to agree:

The following climate targets for the Avon Pension Fund:

1a) Clear tangible targets for climate action in the years 2024-30:

- By 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050.

- The Fund will reduce carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).

- By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).

- 70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027.

1b) To bring forward its overall net zero target to 2045 (from 2050) and review this formally again in 2026.

2) To endorse and support collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies.

3) That the Committee supports nature-based investments and asks the Investment Panel to explore investment opportunities in 2024/25 and bring a recommendation to Committee.

41 2023 ANNUAL RESPONSIBLE INVESTMENT REPORT

The Investment Manager introduced the report to the Panel. He explained that this was the eleventh annual report on responsible investment prepared by the Fund and that the aim is to bring together all the aspects of the Fund's policies and activities that contribute to its responsible investing objectives. The draft report was enclosed for the Committee to provide feedback and approve.

Councillor Toby Simon commented that within the listed priorities he would like to see 'g) Human rights and social issues' higher up the list and proposed this be placed at point b).

The Chair stated that he was keen for progress to be made over the coming year in terms of the Local Impact portfolio and wanted the Fund to stay ahead of the game as much as possible.

The Head of Pensions said that clear objectives would be set within that portfolio with a focus on social / local impact. He added that officers were in the process of assessing a number of proposals that had been submitted and were due to bring an initial report to the Investment Panel in 2024, prior to coming to the Committee.

The Committee **RESOLVED** to:

- i) Approve the Draft 2023 Annual Responsible Investment Report for publication.
- ii) Agree the 2024 RI priorities as set out in 4.4.

42 INVESTMENT STRATEGY (FOR PERIODS ENDING 30 SEPTEMBER 2023)

The Investment Manager introduced the report to the Committee and highlighted the following areas.

- The Investment Panel met on 1st December 2023 and their most substantive item discussed during the meeting was the modelling output of the dynamic equity protection strategy. There was unanimous support to reduce the hedge ratio to 50% from 100% of underlying equity exposure.
- Panel members considered the trade-offs between asset performance drag and risk reduction, and specifically the impact on the discount rate and employer contributions as part of their decision to recommend the strategic change to Committee.
- The Fund's assets were £5,268m on 30 September 2023 and delivered a net investment return of -2.9% over the quarter. The decline in the value of Fund assets over the quarter was driven mainly by the LDI portfolio and equity assets. Overseas property and secured income portfolios also detracted.

Councillor Joanna Wright asked for further explanation of section 5.2 of the report.

Steve Turner, Mercer replied that 40% of the Fund's assets are invested in equities and these account for around 70% of the overall risk. He stated that the Fund has a risk management approach and uses the hedge ratio as an insurance policy with regard to equities to act as a shock absorber.

He added that by reducing the ratio to 50% this would allow potential to capture any upside whilst retaining some degree of insurance.

He informed the Committee that there was no overall change in the funding position.

He said that historically the months of September and October are not great for investing, but added that the end of October saw a big reversal in some markets whilst a strong rally in equity took place during November.

Pauline Gordon commented that the Bank of England were less positive on rates than markets suggest.

Steve Turner confirmed that rates markets are not always a strong indicator of future rates.

He added that it would be interesting to see the end of year position.

Councillor Joanna Wright referred to section 6.1 (Quarterly Stewardship Summary) and asked for further information on this point.

The Investments Manager replied that the role of Hermes is to be a voting engagement provider for Brunel, having access to people at the highest corporate level and then advising Brunel on their voting policy.

The Chair commented that this issue had also been mentioned at the recent Pension Board meeting and suggested a future report on the approach to voting by Brunel and related service providers be received to give the Committee further information.

This proposal was seconded by Councillor Wright.

The Committee **RESOLVED** to:

- i) Note the information set out in the report and appendices.
- ii) Agrees the recommendation from the Investment Panel to reduce the dynamic equity protection hedge ratio to 50%.
- iii) Agree that the implementation of ii) is delegated to the FRMG.
- iv) Agree that the Committee receives a future report on Stewardship.

43 UPDATE ON LEGISLATION

The Technical & Compliance Advisor introduced the report to the Committee and gave an update on the following matters.

McCloud Judgment

The Fund have started processing McCloud cases from 1st October 2023 so adhering to the regulations, but guidance is still awaited from Government on the more complex cases. Remedy cases are to be looked at in 2024, and in the draft guidance, it has been proposed that certain cases are to be completed by 31 August 2025, which is the date the Annual Benefit Statements are to be issued with McCloud data.

Pensions Dashboard

The LGA have announced that the proposed date for Public Sector Schemes to be connected to the Pensions Dashboard is by 30th September 2025.

The Chair asked if as expected a General Election is held in 2024, would a change in government lead to a change in their philosophies towards pensions and what risk would this be to the Fund.

The Pensions Operations Manager replied that any ministerial change delays guidance and slows overall progress.

Steve Turner, Mercer commented that he believed that there was some degree of alignment between the Conservative and Labour parties over pooling.

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

44 PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT

The Pensions Operations Manager introduced the report to the Committee and highlighted the following areas from Appendix 3 (Administration Service Improvement Plan update Q3 2023).

Current Service state

- Aggregate performance is broadly stable – but insufficient.
- Cases completed are starting to exceed new cases coming in.
- Reduction of outstanding cases is starting to come down and supports our focus on addressing backlog cases.

Five root causes affecting the Service

1. People & Capacity

- Vacancy rate: 10% (13 recent appointments made)
- Pay
- Officer experience

Jackie Peel asked if the recent appointments were of experienced staff.

The Pensions Operations Manager replied that the staff appointed have a good range of general skills and have begun pension specific training.

Charles Gerrish asked when the post of Payroll Manager would be filled and is there enough expertise across the current teams.

The Pensions Operations Manager replied that a restructure programme has been undertaken and that following a revision of the job description the post was due to be advertised again soon. She added that she believed that the current teams have the expertise to deal with all aspects of their work.

Councillor Joanna Wright referred to sections 5.3 and 5.4 of the report and asked why two employers were due to be fined.

The Pensions Operations Manager replied that during the Year End exercise two employers had submitted information either where it was incorrect or missing. She added that they do try to be lenient and only issue fines when they are appropriate.

2. Processes

- Duplication of process and checking
- Volume of Leaver work
- Payroll processes

3. Regulations

- New McCloud regulations with effect from 1st October
 - Training received from Aon
 - Switched on in Live software system.

- Disclosure regulations 60,000 letters / 20,000 emails to be sent by the end of the year to all affected members.
- New Fire Scheme Sergeant/McCloud regulations with effect from 1st October

The Chair asked why the Fund has taken the decision to switch on the McCloud regulations in the software from 1st October and other Funds have not.

The Pensions Operations Manager replied that for other Funds it could be due to either a resource or confidence issue. She added that some have done so since the start date occurred. She explained that they have encountered some quirks, but these have been reported and either resolved or a solution is being worked upon.

4. Work Spikes & Projects
 - Fire Scheme exit (31/1/24)
 - ABS (Annual Benefit Statement) spike in work
 - Pensions Increase errors

5. Increased demand
 - ABS spike in emails / calls
 - Increase in case workload
 - Increase in retirements / deaths
 - Backlogs

The Chair stated that if any enquiries are to be promoted as achievable through the website it will need to be clear, easy to understand and secure.

The Pensions Operations Manager replied that this will be the intention when the new Member Website is launched. She added that they were currently at the testing stage, which will include accessibility and security checks.

Future road map

- Intention to attempt to meet KPI's by Q4 2024

Jackie Peel suggested setting an interim target for the KPI's.

The Director, One West replied that a review of the KPI's generally was also due to take place.

The Chair thanked all officers involved for the work they continue to do and for the improvements made so far.

The Committee **RESOLVED** to note the service performance for Q3, the three months up to 30 September 2023.

45 GOVERNANCE UPDATE

The Governance & Risk Advisor introduced the report to the Committee and highlighted the following areas from it.

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.

The schedule for completion of the modules is contained within the training programme (Appendix 3) for members who have not already completed the previous version. Module 7 should be completed by the end of December 2023.

Quarterly Review of Risk Register

Following the quarterly review of the risk register, one new risk has been identified and there are two changes to the current risk score.

NR18 - A new risk has been added to capture reputational risk to the Fund. Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders. This risk has been considered and mitigating actions are set out in the risk register.

NR04 – Governance of the Fund is not in accordance with APF policies and internal controls are not adequate. This risk has been increased from medium impact and unlikely (6) to high impact and likely (16) following the non-payment of pension increases to some members. The risk has been increased while the incident is fully investigated, and Internal Audit have been asked to review payroll procedures and internal controls for year-end processes.

NR08 - Employers unable to meet financial obligations to Fund. In the current economic climate the risk of employers being unable to meet financial obligations to Fund is elevated. There has been an increase in S114 notices issued by councils nationwide and Higher Education employers are particularly constrained as fees are fixed but costs have increased due to inflation. The Fund has no specific information about employers being unable to meet financial obligations and has strong covenant management and information gathering processes in place as a mitigation.

Internal Audit Findings

Internal Audit presented their findings to the Pension Board on 7th December along with the external auditor report.

The Fund's Annual Report has also now been published.

Councillor Toby Simon asked how the Director, One West manages his role in terms of working for the Fund and Internal Audit.

The Director, One West replied that he was not the Head of the Audit Team and that his role was to accelerate issues when needed and assess risk on behalf of the Fund. He added that he keeps the role under regular review with other senior members of staff.

Charles Gerrish asked why the System Access Control – Internal Audit Report had not been shared with the Committee at an earlier meeting.

The Director, One West replied that if a 'No Assurance' (Level 1) rating had been assigned then the report would have been accelerated to an earlier meeting of the Committee. He added that the intention had always been to bring these reports during Q3.

Councillor Joanna Wright asked if other Councils were to issue Section 114 notices what impact, if any, would that have on the Fund.

The Director, One West replied that this is a risk that is accelerating across all Local Authorities. He added that if a Council declares that it is unable to meet its budget it will be placed into shortened, accelerated Improvement Plan and only be able to perform its statutory functions. He stated that actions involving pensions are protected by guarantee.

He said that lobbying in terms of funding to Local Authorities can be directed towards both the LGA and the Scheme Advisory Board. He added that a number of disconnects do exist between central and local government. He informed the Committee that an announcement regarding Local Government Funding was due within the next week.

Nick Weaver asked if an employer was to submit notification that their level of contributions needs to change would the Fund be in a position to handle this.

The Group Manager for Funding, Investment & Risk replied that it was and that contributions can be adjusted on the basis of affordability. She added that the level of contribution and over what period can be set and would be judged on a case-by-case basis. She said that the Fund was covered with a policy.

Councillor Toby Simon asked if the Committee receives a Covenant report.

The Group Manager for Funding, Investment & Risk replied that it does and that it was published as part of the agenda for the meeting that took place in June 2023.

The Committee **RESOLVED** to:

- i) Note the Committee & Investment Panel workplans, training programme.
- ii) Note the service plan.
- iii) Note the risk register.
- iv) Note the findings set out in the Internal Audit reports.

The meeting ended at 12.21 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

BATH AND NORTH EAST SOMERSET

PENSION BOARD

Tuesday, 20th February, 2024

Present:- Nick Weaver (Chair), Helen Ball, Stuart Anstead and Alison Wyatt

Also in attendance: Nick Dixon (Head of Pensions), Jeff Wring (Director of One West & Avon Pension Fund), Anna Capp (Member Services Manager), Claire Newbery (Pensions Operations Manager), Carolyn Morgan (Governance and Risk Advisor), Yolonda Dean (Employer Services Manager), Claire Moon (Digital Services Manager) and Matt Russell (Data Control Senior Pensions Officer)

29 EMERGENCY EVACUATION PROCEDURE

The Chair welcomed everyone to the meeting and asked the Democratic Services Officer to read out the Emergency Evacuation Procedure.

30 APOLOGIES FOR ABSENCE

The Democratic Services Officer informed the Board that apologies had been received from Tony Whitlock (Employer Representative) and Steve Harman (Employer Representative).

31 DECLARATIONS OF INTEREST

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

33 ITEMS FROM THE PUBLIC

There were none.

34 ITEMS FROM MEMBERS

There were none.

35 MINUTES OF PREVIOUS MEETING: 7TH DECEMBER 2023

The Board approved the minutes of the previous meeting and they were duly signed by the Chair.

36 PENSION FUND ADMINISTRATION - PERFORMANCE REPORT

The Pensions Operations Manager introduced the report and highlighted the following areas from within it.

Pension Increases:

The rectification project has been split into 4 phases with phase 1 due to complete in March 2024 which will rectify c750 members. The fund is continuing to brief the Board and Committee sub-group with key milestones.

She explained that from the original 1,500 suspected cases, the figure had now likely reduced to around 1,200. She added that an actuarial consultant was being used to calculate the exact amounts owed to members (arrears & interest), with the sub-group being consulted for guidance on key decisions.

She stated that, for the c.750 members, payment records were now accurate within the live system and that Aon were supporting officers working on an 'Overs & Under Policy'.

She said that the Fund is confident that phase 1 would work and rectify the identified cases. She added that they were aware of 46 cases of overpayment and that these would be dealt with on a case by case basis.

She said that a controls review would take place during Q2-Q3 2024 and that an interim update to the Board will be made at the next meeting in June.

Alison Wyatt asked if the people affected know about this situation yet.

The Pensions Operations Manager replied that some do, where they have approached the Fund and already been rectified, but that the c. 1,200 outstanding members do not yet know, and will be written to over the next two weeks and recompensed during March.

The plan is to have made all rectifications to the remaining c.450 members by the end of 2024.

Alison Wyatt asked if it was known what sums of money were likely to be involved.

The Pensions Operations Manager replied that the largest individual amount would be around £60,000, but that the majority of cases would be below £5,000. She added that some cases would be going back over ten years and therefore the errors would be cumulative. The Head of Pensions added that total costs are likely to be lower than the Fund's initial estimate of £1.5m.

Alison Wyatt asked if the annual Pensions Increase should be communicated to members of the Fund.

The Member Services Manager replied that this information is always included in payslips to members in both April and May.

The Head of Pensions commented that initially the discrepancies were treated as individual cases until a further analysis revealed that this was a broader issue.

Helen Ball asked how much the use of the consultants mentioned would cost the Fund.

The Pensions Operations Manager replied that the cost of the consultants working on the Pensions Increase arrears was to be £33,000 and that Aon's fee for the policy work would be £12,000. She added that the Fund was still working within its previously agreed budget.

Stuart Anstead asked if officers were working to a timeline of 3 month windows per phase in order to complete the work by the end of the year.

The Pensions Operations Manager replied that an overall timeline for each phase had not been set as there is the possibility that it becomes easier as the process moves on, though it was emphasised that the firm intent is to complete all phases before the end of 2024.

Stuart Anstead asked if those members within the first phase were deemed the easiest to rectify.

The Pensions Operations Manager replied that they were to some extent from the point of view that they are alive and have no GMP (Guaranteed Minimum Pension).

Helen Ball suggested that, once an independent review of operational processes has been completed, the Board are updated with a list of potential risks and mitigations.

The Pensions Operations Manager replied that were seeking to provide an interim report in June followed by a full report in September.

The Head of Pensions said that he foresaw the need to put practical controls in place every quarter and annually to check that risks are being robustly managed.

Alison Wyatt asked if Internal Audit would be guided into making sure that these issues are analysed in their next review.

The Pensions Operations Manager replied that they would and said that a Payroll Audit was due to begin in April and would involve looking at both the Year End process and the Pensions Increase.

People:

- The Fund is still not operating with capacity with ongoing recruitment. In addition internal movement continues across the teams as officers apply for roles internally.
 - Three senior technical payroll officers have been appointed to the team (internal movement) with the Pensions Payroll Manager role now at the advert stage. These appointments have created vacancies within the Member Services team which are also at the advert stage.
 - 7.5 posts have been recruited to in the period and we are now starting to fill additional posts in the new structure.

McCloud:

- Officers have been working with new regulations since 1 October 2023, however due to a bug in the latest software released in December, all retirements with an underpin must be manually checked and calculated taking additional time to process. A fix to the software has now been made.
- Due to outstanding McCloud guidance from the Scheme Advisory Board (SAB) we continue to stockpile transfers in/out, divorce and deferred cases if they are affected by the underpin.
- Planning has begun for the remedy with a regulatory completion deadline of August 2025.

Alison Wyatt asked if there was to be any recourse action towards the software provider.

The Pensions Operations Manager replied that this was not likely as they did respond quickly to put a fix in place.

GMP:

- The fund is in the final stages of reviewing the Closure Report for member reconciliation. 14,066 members have been identified as “stalemate cases” out of a population of 91,369 members. The review will be completed in April and we plan to bring recommendations to the Pension Committee in June.

Helen Ball asked if it were possible for a member to be affected by the Pensions Increase, McCloud and GMP.

The Member Services Manager replied that as part of the phase 1 work on the Pensions Increase they checked members against their HMRC data re: GMP. She added that these members could still be impacted by McCloud, but only result in them receiving additional money in that case.

Helen Ball said that communications regarding all of these issues needs to be delivered in an organised and timely manner.

Avon Fire Service Exit:

- Considerable resource was deployed to the project team in the lead up to the exit of the scheme from 1st February. The transfer to West Yorkshire Pension Fund has been successfully completed with payroll and data being securely transferred to the new service provider.

Stuart Anstead asked why had the exit occurred.

The Pensions Operations Manager replied that the Fund had given them notice that it was not able to maintain support as it was not cost effective to do so.

The Head of Pensions added that this decision has resulted in enabling 1-2 FTE to now work directly for the Fund.

The Pensions Operations Manager addressed the Board and took them through Appendix 2 of the report, a summary is set out below.

- Aggregate SLA performance is broadly stable – not yet improving.

Stuart Anstead asked if the subject matters with figures of less than 20% were deemed to be less important activities and therefore resources would be placed in more priority areas.

The Pensions Operations Manager replied that the priority for the service remains retirements and deaths. She added that an issue remains whereby if they are awaiting information to be supplied to them from a member or employer the clock remains ticking. She said that they were looking at if it were possible for this issue to be added into the system.

Stuart Anstead suggested that the figures that are less than 20% be highlighted in an additional way to the other 'reds'.

- Outstanding KPI cases have not reduced – with focus on clearing older cases.
- We are also managing multiple 'non-KPI' cases.
- Resolution of non-KPI cases strengthens service foundations.

The Chair commented that he recognised this as a challenge for the service and asked if it was felt that it was clear enough as to where our responsibilities lay with employers.

The Employer Services Manager replied that more could probably be done although regular communications are supplied. She added that it was important that the service is made aware of when any problems occur.

The Pensions Operations Manager added that it would also be helpful to have additional information within I-connect for certain issues. She added that difficult decisions have had to be taken in the past relating to resourcing of the service.

Stuart Anstead asked if there were plans for any of the work to become automated / digitised to enable an improvement to current figures.

The Pensions Operations Manager replied that 96% of employers were now on I-connect so this should lead to a better supply of information. She added that staff recruitment and training was ongoing alongside improvements to their processes.

She said that Heywood have been approached to see if they can resolve the bulk process within I-connect.

She stated that the launch of the new APF website at the end of February was hoped to enable members to view more content and encourage their use of My Pension Online.

The Head of Pensions commented that he saw four key areas for the service to update on as work progresses through the year.

- Annual obligations
- Regulatory work
- Small, highly effective enhancements
- Big transformation projects

He added that, as always, the challenge will be identifying capacity within the service alongside providing the business-as-usual functions.

The Board **RESOLVED** to note the service performance for the period ending 31st December 2023.

37 INVESTMENT UPDATE (VERBAL)

The Head of Pensions addressed the Board and gave the following update on investments.

- At the end of 2023 the asset value of the Fund was £5.7bn which had seen an 8.7% return in Q4.
- Brunel funds performed well during this period.
- The Fund has raised its exposure to gilts in Q3 2023, and their value increased during Q4 2023 as the rate of interest dropped.
- The funding level is now 97% (improvement of 1% since 31 September 2023).
- Decision taken to reduce hedging to 50% of our Equity Portfolio – this is expected to improve our long-term growth potential by 0.4% / 0.5%.
- The Committee has approved a 3% (£170m) allocation to Local Impact Investment across three sleeves.
 - Renewable Infrastructure
 - Affordable Housing
 - Small & Medium Enterprise (SME) Funding
- £50m has been deployed within a consortium, alongside other Local Authorities, into investment in 16 solar farms across the South West.
- Future returns expected to be between 7 – 9%.

The Chair thanked the Head of Pensions for the update on behalf of the Board.

38 RISK MANAGEMENT UPDATE - RISK REGISTER

The Governance & Risk Advisor introduced the report to the Board and highlighted the following areas from it.

She explained that as part of the quarterly review the pre mitigation scores have been reviewed and a couple adjusted as follows:

- Risk NR04 – Governance of Fund, the pre mitigation likelihood has been increased from likely to almost certain to reflect the risk of internal controls not being sufficient.

- Risk NR08 – Employers unable to meet financial obligations, the pre mitigation likelihood has been changed from possible to likely to reflect the fact that the underlying risk has increased.

She stated that changes made to the post mitigation scores this quarter were:

- Risk NR18 - Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders. On review the impact has been reduced from high to medium impact to reflect the mitigating actions taken.
- Risk NR08 – Employers unable to meet financial obligations to Fund. The impact has been reduced from high back to medium as there is now more certainty that if a Local Authority fails it will be regulatory to pay employer contributions.

She informed the Board that the most critical risks remain:

- NR01 – Ability to deliver admin service to members and employers within agreed standards.
- NR06 – The likelihood of a cyber attack remains a high risk due to the recent high profile attacks in the public domain. The Fund is currently implementing further audit actions around staff awareness and education and will shortly carry out a review of its business continuity plan.
- NR04 – Governance of Fund not in accordance with APF policies – Controls not adequate. Internal Audit continue to assist in checking of internal controls.

Alison Wyatt asked if the work relating to the Pensions Increase was covered in NR04.

The Governance & Risk Advisor replied that it was.

The Chair asked if the Internal Audit workplan could be shared with the Board.

The Governance & Risk Advisor replied that this would be circulated to the members of the Board.

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

39 PENSION BOARD - TRAINING AND WORK PLAN UPDATE

The Governance & Risk Advisor introduced the report to the Board. She explained that a series of workshops were planned across the year.

May: The Pension Regulator General Code of Practice
 November: Interim Valuation - Funding / Employer session
 TBC: Pensions Dashboard

She reminded Board members that all online learning modules from Hymans Robertson have to be completed by the 31st March 2024 deadline.

The Board **RESOLVED** to:

- i) Note the workplan & training plan for 2024
- ii) Note the dates for future meetings.

The meeting ended at 11.22 am

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	22 March 2024	AGENDA ITEM NUMBER	10
TITLE:	2024-27 PLAN & BUDGET		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Annex 1:	2024-27 Plan & Budget Report		
Appendix 1	Scope of the Avon Pension Fund		
Appendix 2A	Service Plan monitoring 2024		
Appendix 2B	Service Plan completed projects 2023		
Appendix 3	Budget & Cash Flow Forecast		
Appendix 4	Strategic Roadmap		

1 THE ISSUE

- 1.1 The purpose of this report is to present to Committee the 3-year plan and budget for the period 2024-27.
- 1.2 The Plan (Appendix-1) details developments to be undertaken during the next 3 financial years, designed to improve service and efficiency, as well as meet legislative obligations.

2 RECOMMENDATION

- 2.1 **That the Committee approve the 3 Year Plan & Budget 2024-27 for the Avon Pension Fund.**

3 FINANCIAL IMPLICATIONS

- 3.1 Administration and investment management costs incurred by the Avon Pension Fund are recovered from the Fund through 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 PLAN 2024-27

4.1 The plan sets out the Fund's objectives for 2024-27. The 3-year budget underpins actions in the plan including the investment strategy, risk management, compliance, and improvements in administration of the Fund.

4.2 The main focus of this plan is as follows:

(i) Service

- The Fund will implement actions to raise operational efficiency and improving service for members.

(ii) Funding

- The Fund aims to grow its assets faster than its liabilities and reach a 100% funding position over the medium term.
- The Fund will manage employer admissions and exits, as well as assessing employer contributions vs covenant quality.

(iii) Investments

- The Fund will implement its investment strategy, designed to grow assets by CPI + 3.5% across the economic cycle, at an acceptable risk which can deliver reasonably predictable employer contributions.
- The fund will use risk management, including liability driven investing and equity hedging to reduce asset-liability risks.
- The will implement its climate strategy which the Committee approved in December 2023.

(iv) Regulations:

- The Fund will manage three mandated changes
 - o The McCloud remedy.
 - o Rectification required in respect of the Guaranteed Minimum Pensions.
 - o Planned introduction of the DWP pensions dashboard.
- The Fund will implement requirements of the Good Governance Review and The Pension Regulator's Single Code of Practice.

(v) People

- The Fund will build its FTE resources towards a new target of 92 FTEs, raising capacity and skills to improve service standards.
- The fund will also support staff wellbeing and provide access to resource tools and training opportunities.

4.3 Full details of the 2024-27 Service Plan are in Annex 1.

4.4 Appendix 2 shows the new medium-term projects for 2024-27 together with completed projects from the 2023-24 plan.

5 BUDGET FOR 2024-27

- 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 2024 are included as APPENDIX 3 to the Service Plan.
- 5.2 The core essence of the Fund's budget is that action to constrain investment costs, e.g. high passive weighting – creates financial headroom to raise people capacity with higher administration costs.
- 5.3 The aggregate budget for 2024-25 of £31.4m is £0.4m (1%) lower than the £31.8m budget of 2023-24.

<i>£ millions</i>	2023-24	2024-25	Change
Administration	6.9	8.7	+1.8
Investments & Governance	24.9	22.7	-2.2
Total	31.8	31.4	-0.4

- 5.4 The administration budget of £8.7m in 2024-25 is a £1.8m increase over 2023-24, largely driven by new roles, inflation, and contingency for a salary review.
- 5.5 In Investments & Governance, costs of £22.7m are £2.2m lower than the £24.9m budget of 2022-23, owing to lower performance fees and greater passive weightings.

6 RISK MANAGEMENT

- 6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund, with responsibility to ensure adequate risk management processes.
- 6.2 It discharges this responsibility by ensuring the Fund has an appropriate investment strategy which is regularly monitored.
- 6.3 In addition the Committee monitors benefits administration, the risk register and compliance with relevant regulations. The Investment Panel further strengthens governance of investment matters and contributes to reduced risk.

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.
- 8.2 The Fund acknowledges financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities and renewable opportunities. The strategy is monitored and reviewed by the Committee.

8.3 The Fund also seeks to act as a force for positive change in climate matters and will act in collaboration with other responsible investors to engage companies, encouraging them to accelerate their pathway towards net zero.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 The Council's Director of One West & APF has 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 – Nick Dixon, Head of Pensions (01225 477325), Claire Newbery, Pensions Operations Manager (01225 395247), Liz Woodyard, Group Manager Funding, Investments & Risk (01225 395306)
Background papers	Various Accounting Records

ANNEX 1

SERVICE PLAN & BUDGET REPORT 2024-27

1 Management Summary

Global markets were broadly favourable during 2023. Equities increased in value by 15% driven by US equities, while UK government bonds recovered as interest rate expectations declined. The Fund's portfolio value increased by 9% to £5,700m¹ and we enter 2024 in a robust financial position with 97% funding¹.

The Fund reviewed its investment strategy and executed material changes in 2023-24: equities are now split 50:50 across active and passive with materially lower fees, the Fund has reduced equity hedging from 100% to 50% to raise longer term growth potential, LDI hedging has been raised through higher leverage exposure to gilts, and the Fund confirmed £175m for Local Impact investing, initiated with a £50m investment in solar farms.

In addition, the new investment strategy confirmed more ambitious climate targets with the Fund's net zero date for its investments brought forward from 2050 to 2045. This target is underpinned by tangible near-term actions for the period 2024-30.

Looking forward to 2024-27, the Fund aims to: deliver reasonably predictable employer contributions, achieve investment growth which exceeds the Actuary's discount rate of CPI+2.5%, and deploy further capital into Local Impact investing.

Operationally the picture has been more mixed during 2023-24. Service performance in aggregate remains below required levels with only 5 of 18 service measures completed within target timescales. This is a result of high staff vacancy rates at the start of the period, regulatory changes e.g. McCloud, and the emergence of new challenges such as the Pension Increase issue which had to be promptly resolved.

To address the service challenge, we are driving key areas of action:

- People: the Fund will complete a new organisational structure and continue recruitment to build full capacity of 92 FTEs.
- Digital: we will develop digital communications and improve My Pension Online to enable simpler self-serve and drive operational efficiency.
- Control: we will review internal processes to drive control improvements and reduce operational risks.

On the regulatory front, we will fully implement the McCloud remedy before the regulatory deadline of August 2025, we will undertake preparatory work to ensure the Fund can meet all requirements of the Pensions Dashboard before the deadline in Q3 2025, and we will rectify all members impacted by the Minimum Pension Guarantee.

¹ 31 December 2023

2 Administration

2023-24 Review

The year has seen significant change – new regulations, digital improvements, new hires – while we also strengthened the quality of management information which is now embedded to inform workflow decisions and service priorities.

A pay review in Q2 2023 led to implementation of market supplements, raising officers' total pay to help staff retention. Recruitment has been a key focus and the vacancy rate has declined from 16% in April 2023 to 9% in March 2024. The Payroll team has been stabilised by the appointment of 3 senior payroll officers and a Payroll Manager is being appointed.

With 13 new staff joining and 25 internal movements during 2023-24, training has become critical. It takes 12-18 months to fully train a new pensions officer and it will take time for additional resources to feed into improved service. While capabilities are being developed, case backlogs remain high and service quality remains materially below target.

The Fund has also seen new challenges during the year which it has urgently addressed, e.g. the Pensions Increase project, systems issues in calculating the new McCloud underpin. With the creation of a Digital Services team to manage employer data and a new member website launched in February 2024, the Fund has started on its digital journey.

Objectives 2024-25

Administration actions over 2024-25 are designed to drive three core objectives: meet regulatory requirements, improve service experience, and drive operational efficiency. Key actions include the following:

1. Regulations: meet regulatory requirements

- Pension Increases: the Fund has already recompensed c.700 affected members and plans to complete all corrections before the end of 2024.
- McCloud: we will fully implement the remedy before the regulatory deadline of August 2025, which will require material preparatory work during 2024.
- Pensions Dashboard: we will also undertake preparatory work to ensure the Fund can comply with all requirements before the deadline in Q3 2025.
- Guaranteed Minimum Pension: following reconciliation of the data we will rectify all members impacted.
- The Fund will comply with other regulatory changes as required.

2. People: improve service, drive operational efficiency

- The Fund will complete the new organisational structure already started. This includes a better resourced Payroll function and a new Business Change team to support transformation and key projects. Headcount will increase from 85 to 92 FTEs.
- And we will continue recruitment to build up to full capacity.
- The Fund will implement a pensions-specific pay structure with the B&NES HR team, removing need for market supplements, which will help to retain and recruit staff.
- APF leadership is also focused on training, development, and communication, to improve staff engagement and strengthen their sense of connection with the Fund.

3. *Digital: improve service, drive operational efficiency*
 - We will continue to develop digital communications for all stakeholders, through improved online content and web experience.
 - The Fund will improve 'My Pension Online' to enable simpler self-serve.
 - We will upgrade the employer website encouraging employers to self-serve.
4. *Control: meet regulatory requirements, improve service, drive operational efficiency*
 - We will undertake a review of internal processes across our administration, to drive control improvements (e.g. annual / quarterly checks) and reduce operational risks.
 - The Fund will further improve information and reporting, to inform management and decisions around service priorities.
 - We will automate key processes and aggregate tasks into groups which can be processed in bulk.

3 Investments & Funding

2023-24 Review

An investment review concluded in 2023-24 with new climate targets and revised equity hedging. Significant engagement with stakeholders was an integral part of the climate review and informed the Committee's final decisions in December 2023.

The Fund's net zero target for its investment was brought forward from 2050 to 2045, underpinned by tangible action and targets during 2024-30 which will be reviewed annually:

- *Carbon Intensity vs 2019 baseline:*
 - The Fund will reduce carbon intensity of its equities 43% by 2025 and 69% by 2030
 - The Fund will reduce carbon intensity of its corporate bonds by 60% in 2030
- *Divestments:*
 - By 2030 the Fund will divest from developed market equities not aligning to achieve net zero.
- *Engagement with companies:*
 - By the end of 2024, 70% of emissions in material sectors will be covered by active engagement, with 90% covered by 2027.

With bond yields at attractive levels, the liability matching strategy was reinstated with maximum leverage 40% of fund assets. In addition the hedge ratio for equity protection was reduced from 100% of equity value to 50%, to release collateral and improve long term portfolio growth potential while maintaining material downside protection.

During the year a captive Death in Service insurance arrangement was put in place, to shield individual employers from one-off costs which are now shared. Work to reduce investment risk for some of the smaller employers has continued, by enabling employers to switch to the Lower Risk Investment Strategy.

Asset values increased during the year and now stand at c.£5.7 billion². However as inflation expectations have fallen, bond yields have declined and a lower discount rate has raised the present value of liabilities, which has offset the increase in assets. Hence the net funding position has remained broadly stable at c.97%¹.

Objectives 2024-25

The Fund aims to achieve predictable employer contributions, through an investment strategy of acceptable risk which seeks to grow assets more quickly than the Fund's actuarial assumptions. Key focus areas during 2024-27 include the following:

Triennial Valuation:

- This will be in 2025 and comprises the valuation and funding plan.
- It will embed prudence into assumptions for future investment returns, to reduce the risk of the funding level not reaching 100% over the medium term.
- Once the funding level exceeds 100%, the Fund will face a strategic choice between lower contributions vs a lower risk investment strategy.
- An interim valuation will be undertaken in 2024³. This will highlight cost pressures and materials swings in assets and liabilities, to help employers with their budgeting.

Investment Strategy:

- A review of the investment strategy will be conducted in 2025-26 following the valuation, to ascertain the optimal strategy to deliver the funding plan.
- This will be framed in the context of employer needs such as their risk appetite and interest in predictable contributions.
- The review will focus on: asset growth targets, asset allocation, volatility, and the implications of different strategies for employer contributions and funding.

Local Impact

- During 2023-24 the Fund made its first investment, committing £50m to Wessex Gardens' 16 solar farms alongside 5 other LGPS funds⁴.
- During 2024-25 the Fund aims to deploy further capital and is actively exploring specific opportunities in Affordable Housing and SME Funding.
- The Fund will also explore Nature Based Investing to assess how this could be included in our investment strategy and be implemented.
- There will also be projects to consider the government's Levelling Up and Private Equity ambitions for LGPS funds and the pooling of remaining legacy assets.

Climate Change

- The Fund will implement actions required to achieve its climate targets (listed above).
- Administered by B&NES Council, the Fund is committed to the Council's goal of Net Zero 2030 in respect of its own operations. It will achieve this by digitising service, using technology to enable remote working, and through occupying carbon efficient offices.
- Responsible investment objectives are kept under regular review as government policies evolve and technology enables targets to be accelerated over the next 5-10 years.

² 31 December 2023

³ reflecting assets and liabilities from 31 March 2024

⁴ in partnership with Cornwall, Devon, Gloucestershire, Wiltshire, Oxfordshire. Aggregate partnership investment £330m.

Employers

- The focus during 2024-27 will be on managing employer admissions and exits.
- The Fund will undertake annual covenant checks on employers to assess employer-specific risks. Such assessments are critical to identify employers which may face funding issues, so we can work with them to manage pension costs and minimise financial risks.
- We will continue to ensure scheme exits are viable without adversely impacting the Fund.

4 Governance

Good Governance Review (GGR)

- The Scheme Advisory Board's review sets out recommendations to improve governance of LGPS. Statutory guidance necessary for the recommendations to take legal effect is expected to be published this year.
- The Fund has taken action to comply with draft requirements and during 2024 the Fund will implement any additional requirements from the Scheme Advisory Board's GGR.

General Code of Practice (GCOP)

- The Pension Regulator confirmed that its GCOP will come into force on 27 March 2024, consolidating 10 separate Codes into a single Code.
- In 2024 the Fund will review the Code's requirements and put in place actions to comply including new requirements such as cyber security.

Knowledge & Skills

- Both Committee and Board members committed in 2023 to complete Hyman's Learning Academy modules and this now forms a mandatory part of the Fund's Training policy.
- Achieving compliance in line with our policy will be a priority for 2024-25.

Audit

- Audit attention is increasing and the 2024-25 Audit Plan will focus on a few critical areas.

	Timing	Days' work
Pensions Payroll	Apr-June	15
Annual Benefit Statement	Apr-June	20
Internal Control Framework	July-Dec	30
Employer Data Security	July-Dec	20
General Code – implementation	Oct-Dec	20
Local Impact Investing – governance	Jan-March	25
TOTAL DAYS		130

Pension Board Membership

- The Fund will undertake a recruitment exercise this year to recruit new Member and Employer Representatives to replace existing members as their terms come to an end.

Risk Management

- The Fund will review and update its Business Continuity Plan to ensure it remains fit for purpose and resilient vs new threats.
- The Fund will also identify key risks and undertake mitigating actions to reduce the Fund's aggregate risk exposure.

5 Regulatory Update

Projects for McCloud and the Pensions Dashboard are already in place.

McCloud regulations came into force in October 2023, with the Fund applying the rules to new cases such as retirements. For the McCloud Remedy (retrospective application to those members who have left or retired) numbers of impacted members still needs to be confirmed and guidance from DHLUC is not yet final. There remains significant work to implement the remedy in full in terms of calculations and communications, which the Fund will complete before the regulatory deadline in Q3 2025.

For the Pensions Dashboard, the LGA issued draft guidance in November 2023. The required connection date will likely be July-September 2025 and exact staging dates will be published in due course by the Money & Pensions Service. The Fund will comply with all requirements of the Pensions Dashboard.

We regularly review guidance and bulletins from the LGA and there are regular meetings with Mercers to discuss regulatory changes. The Fund will continue to review and update systems, processes and documents to ensure compliance with any new regulations.

There are also 'business as usual' projects which are regulatory, e.g. members' annual benefit statements and statements for the annual allowance. Planning and delivery of these projects is managed by the Quality Assurance Team and such projects will be managed during 2024-25 to meet all regulatory deadlines.

6 Communications

In 2023-24 the Fund made progress communicating its objectives and ethos including:

- Active engagement with over 5,000 members completing our net zero investment review survey and with 170 plus attendees (including Councillors) at 11 engagement sessions across our region.
- Securing media coverage for our net zero 2045 plans.
- Coverage of recent investment in Wessex Gardens solar.

Example coverage includes: [Pensions Age](#) and [Pensions Expert](#).

We distributed over 120,000 member newsletters and have driven 300% growth in the Fund's social media followers on LinkedIn. Furthermore, the Fund's continued drive to use digital channels reduced our carbon footprint and yielded cost savings exceeding £30,000 by using email to distribute newsletters, Annual Pension statements, and other materials.

The Fund launched its new website www.avonpensionfund.org.uk on 29 February 2024. Our former website had to be replaced and we used the opportunity to improve our online service. The new website is more user-friendly, with fresh features enabling members to access information they need and tell us simple changes such as their new address. The new website is part of the Fund's own digital improvement journey and we will make regular refinements during 2024-27.

The Fund has several communications objectives for 2024-25:

- *Regulatory*: the first and most important objective is to support our administration teams in meeting regulatory commitments, e.g. timely production of Annual Benefit Statements, publishing documents like the Annual report, etc.
- *Understanding*: the Fund needs to communicate with its diverse stakeholders, to deepen members' understanding of their pension and convey the long term strength of the Fund. We need to combine this with explaining how we implement our climate ambitions and progress towards net zero.
- *Digital adoption*: a critical objective is to maximise members' adoption of My Pension Online (MPO) which supports improved service and higher operational efficiency. This year's campaign will focus on maximising take up among active members and new joiners.

7 Budget & Cashflow Forecast 2024-27

The 2024-25 budget of £31.4m is £0.4m (-1%) below the £31.8m budget of 2023-24.

£ millions	2023-24		2024-25	Change 2025 vs 2024
	Forecast	budget	budget	
Admin & Governance	6.6	6.9	8.7	+1.8
Investments	22.8	24.9	22.7	-2.2
Total	29.4	31.8	31.4	-0.4

The essence of the 2024-27 budget is that reduced investment costs – driven by shifting assets from active to passive and lower assets with managers on performance fees – create headroom for higher administration costs and additional FTEs required to improve service and controls in the Fund.

Administration & Governance

The administration budget of £8.7m for 2024-25 is £1.8m higher than 2023-24. Five core drivers explain the majority of this difference:

- £0.6m: the new organisational structure – with 95 FTEs – includes new posts required to improve service, tighten control, and meet regulatory obligations. New posts include the Payroll Manager and Head of Business Change.
- £0.3m: expected annual 5% pay rise in 2024-25 and other costs.
- £0.3m: contingency for salary reviews being undertaken with Korn Ferry.
- £0.3m: investment and actuarial advice
- £0.2m: system developments including 'advanced admin to pay' and data cleansing

The Fund is required to meet costs of the Pensions Board, for which estimated costs are included in the 3-year budget.

Investment Costs

2024-25 investment fees of £22.7m are £2.2m (9%) lower than the £24.9m budget of 2023-24. Lower investment fees are primarily driven by the shift from active to passive management, and projected performance fees reducing as the Fund will have fewer assets with IFM the infrastructure manager.

Investment costs include Brunel fees which manages £5.1 billion (89%) of Avon assets⁵. Estimated fees for 2024-25 assume current mandates are retained, though actual fees will depend on asset values and performance. Avon's estimated share of Brunel costs is c.13% or £1.9m pa (3 bps). The increase over current year budget is largely driven by inflation, re-tendering existing contracts, and higher pension costs.

Cashflow

As Fund membership matures, monitoring cash flow trends becomes increasingly critical.

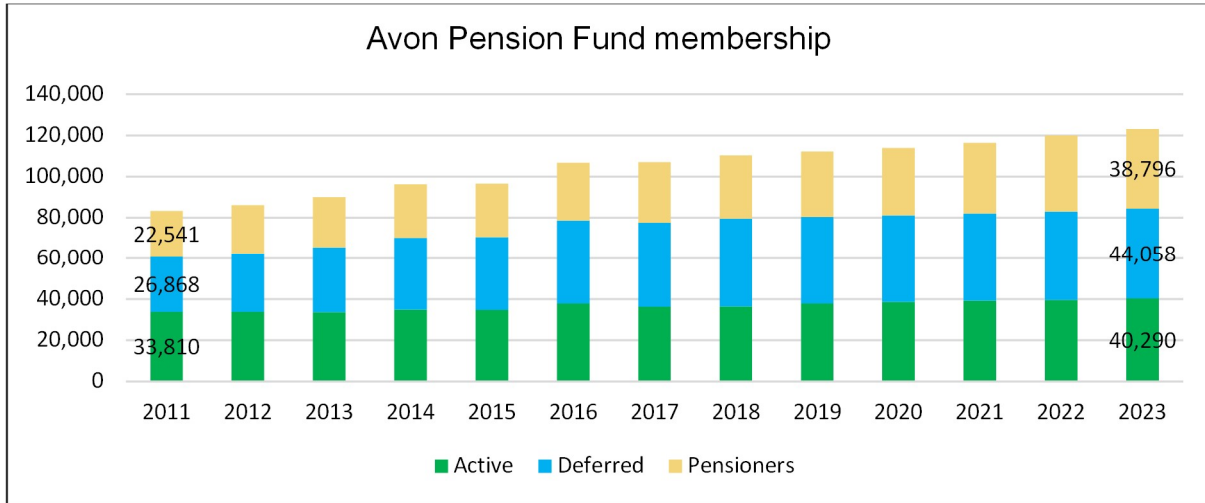
The Fund has now passed through an inflection point from being cash flow positive (contributions exceed benefits) to cash flow negative.

Owing to advance future service payments from major employers and deficits paid in advance by other employers in April 2024, the Fund will enjoy high cash in-flows at the start of the financial year, followed by greater negative monthly cash flows mitigated by using investment income and divestments.

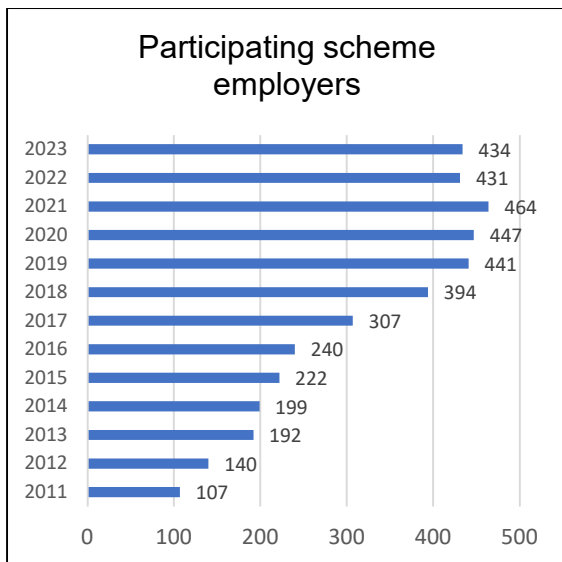
The Fund is expected to experience £27m of net cash outflows in 2024-25. Full details of the budget between 2024-27 together with a cash flow forecast for the payment of benefits and the receipt of contributions are in Appendix 3.

⁵ 31 December 2022

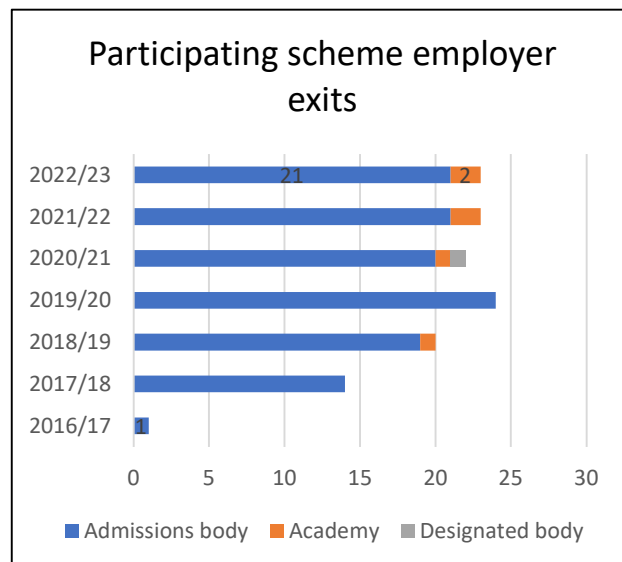
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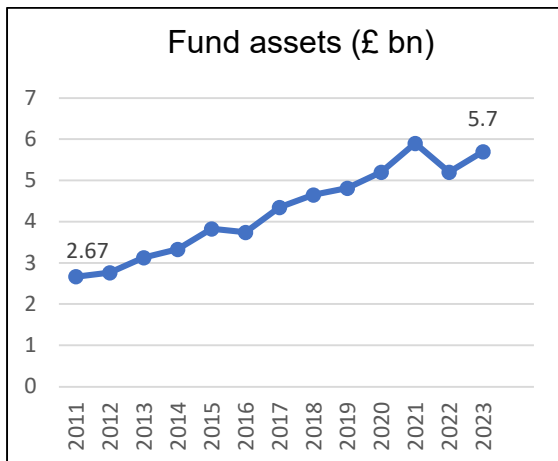
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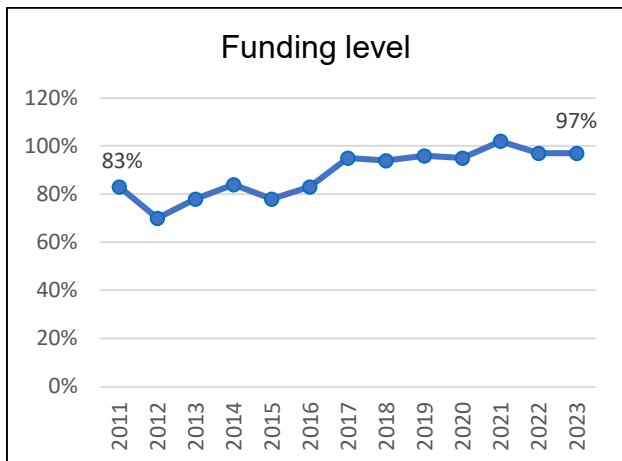
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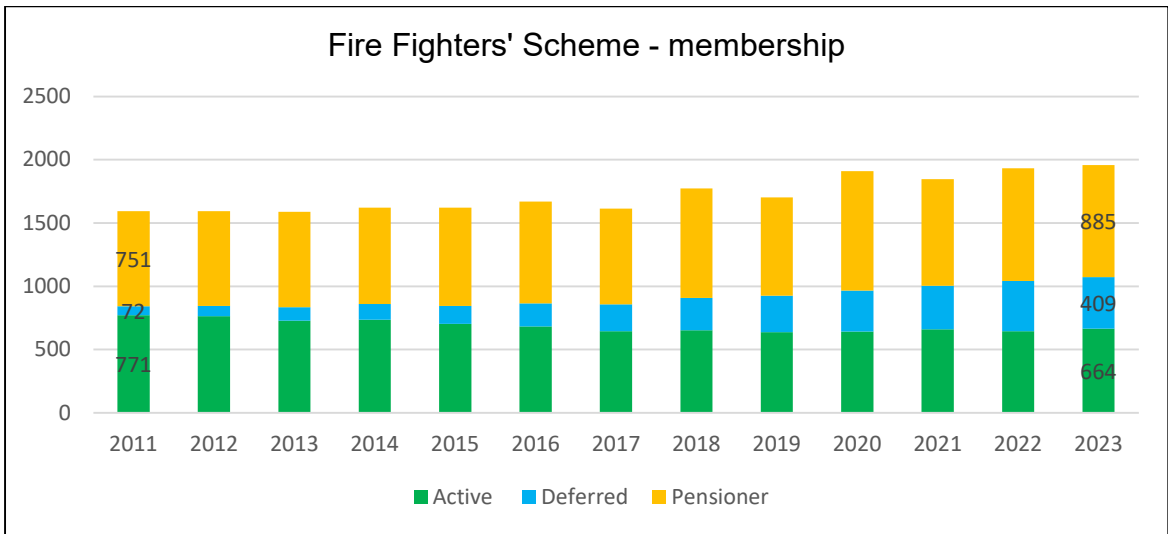
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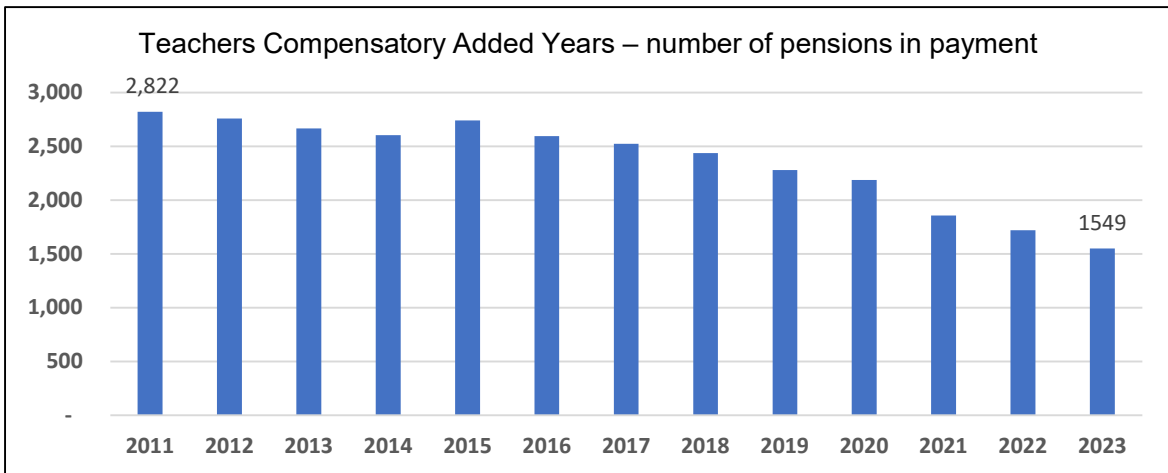
(Data: 31 December 2023)



(Data: 31 December 2023)



(Data: 31 March 2023)



(Data: 31 March 2023)

Appendix 2A - Service Plan Monitoring 2024		
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Key Objectives	Current Phase of project	Completion Date of overall project	Status
Administration Change Programme			
Annual Projects			
Year End	Planning	Jun-24	In planning
Annual Benefit Statement	Planning	Aug-24	In planning
Annual Allowance / Pension Savings	Planning	Oct-24	In planning
Annual Report	Planning	Dec-24	In planning
Regulatory/Foundation			
GMP – remedy & equalisation	Analysis of Mercer report	Dec-25	On hold
Pensions Dashboard	Preparation of data, comms, governance, DAP Admin	Sep-25	In progress
McCloud Remedy (LGPS)	Legislation published / Heywood UAT	Jul-25	In progress
Pensions Increments - Correction Project	Investigation of root causes and rectification work	Dec-24	In progress
Transformation			
Website – employers	Content review, update and upload	Dec-24	On hold
Bulk processing, e.g. refunds	Process review - impact and scoping assessment	Mar-25	On hold
Organisational structure	Korn Ferry evaluating phase 2 job profiles	Jun-24	In progress
My Pension Online – upgrade	Scope analysis & recommendation	Mar-25	On hold
New member onboarding	Rebranding of letters in progress	Mar-25	In progress
Other Admin Projects			
Process Control Project	Planning	Dec-24	On hold
Governance			
Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Jun-24	In progress
	Review Governance Compliance statement	Jun-24	In planning
	Review register of interest forms	Jun-24	In planning
	Review scheme of delegation	Jun-24	In planning
	Review Conflicts of Interest Policy	Jun-24	In planning
	Review Training Strategy Policy	Jun-24	In planning
	Review Policy on Committee Representation	Jun-24	In planning
	Review Decision Making Matrix	Jun-24	In planning

Good Governance Review	Review any new requirements from Good Governance review once published eg - Workforce Plan	Mar-25	In planning
TPR SCOP requirements	Gap analysis & action plan for new requirements	Mar-25	In planning
Disaster Recovery	Review business continuity plan	Jun-24	In planning
	Cyber Security training officers/PC/PB	Dec-24	In planning
Annual governance review for Pension Board	Review all items on governance checklist	Sep-24	In planning
Training Plan for Committee & Board members	Plan annual training programme for members	Mar-24	In planning
Recruitment for Committee & Pension Board	Recruitment & Induction Training - new PC/PB members	Dec-24	In progress
Contract Retenders	Address Tracing and Identity Checking	Jun-24	In planning
	ISP provider for Pensions Dashboard	Jun-24	In planning
Finance			
iConnect Project to improve process for reconciliation of contributions	Set up new reconciliation process	Jun-24	In progress
Final Accounts	Prepare accounts to meet B&NES internal deadline; update regulatory requirements	May-24	In planning
Investments			
Local Impact Portfolio	Assess opportunities as they arise, invest/implement	Mar-25	In Progress
Nature Based Investments	Explore opportunities and define how construct portfolio	Mar-25	In Progress
Review progress on Climate targets	measure progress for y/e 23	Dec-24	In planning
Allocations to PE and LU	assess impact on strategy (especially allocation of illiquid bucket) if were to allocate in line with government 'ambition'	Sep-24	In planning
Pooling of legacy portfolios	How to transition IFM /Partners/liquidity fund into the pool In line with government guidance	Sep-24	In planning
Funding Strategy			
Interim Valuation	Planning, data provision to Actuary, fund & employer meetings and outcomes	Mar-25	In progress
2025 Valuation	Planning, data provision to Actuary, fund & employer meetings and outcomes	Mar-26	In planning

Appendix 2B - Service Plan Projects completed in 2023

Key Objectives	Tasks	
Administration Strategy		
Annual Projects		
Year End	YE complete but review and fine assessment still to be done	Complete
Annual Benefit Statement	All active and deferred statements published	Complete
Annual Allowance / Pension Savings	Calculate allowances & review exceptions	Complete
Annual Report	With external audit but on track for 1 December publication	Complete
Regulatory/Foundation		
MI & Insights on service levels	User Test & Sign-off	Complete
Employer number series	Testing and communications	Complete
McCloud (Fire)	Legislation published / Pre-legislation Category 1 remedy	Complete
Fire Exit	Handover completed	Complete
Transformation		
Website – members	Content review, update and upload	Complete
Rebrand	Delivery of remaining design assets	Complete
Leaver process - phase 1	New leaver team set up	Complete
Leaver process - phase 2	Process review - impact and scoping assessment	Complete
		Complete
Governance		
Annual review of governance arrangements	Review ToR of Committee and Investment Panel	Complete
	Review Governance Compliance statement	Complete
	Review register of interest forms	Complete
	Review scheme of delegation	Complete
	Review Conflicts of Interest Policy	Complete
	Review Training Strategy Policy	Complete
	Review Policy on Committee Representation	Complete
	Review Decision Making Matrix	Complete
Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	Support Board, education and training needs as required	Complete
Annual governance review for Pension Board	Review all items on governance checklist	Complete
Training Plan for Committee & Board members	Plan annual training programme for members	Complete
	Induction Training for new PC/PB members	Complete
		Complete
Contract Retenders	Investment Advisor Contract	Complete
		Complete

Finance		
iConnect Project to improve process for reconciliation of contributions	Plan requirements of moving more employers to simplified LGPS50 form dependent on iconnect project; 2023 project	Complete
Final Accounts	Prepare accounts to meet B&NES internal deadline; update regulatory requirements	Complete
Investments		
Review of Hedging Strategies including LDI	Assess how contributing to reduction in risk, and governance; IP review Mercer recommendation in July 23; any changes to strategy to Sept PC. Additional work relating to the equity protection strategy reviewed by Panel in Dec. Recommendations to full Committee in Dec.	Complete
Review Climate targets and set new targets	Using 2022 data analyse fund and set new targets; PC workshop in October; PC decision Dec 23	Complete
Funding Strategy		
Death in Service Insurance	Implement captive arrangement; include in FSS after consulting employers	Complete

Budget and Cash Flow Forecast

APPENDIX 3

<u>Three Year Budget</u>	<u>Budget for 2023/24</u>	<u>Forecast 2023/24</u>	<u>Budget 2024/25</u>	<u>Budget 2025/26</u>	<u>Budget 2026/27</u>
	£	£	£	£	£
Administration Costs	251,746	253,822	357,702	241,256	246,081
Communication Costs	247,400	196,639	229,180	232,744	237,398
Payroll Communication Costs	156,565	174,736	161,708	132,813	135,469
Information Systems	492,920	495,124	765,712	655,165	668,268
Salaries	3,328,820	2,751,702	3,974,632	3,902,983	3,981,043
Central Allocated Costs - Administratic	478,884	490,306	516,459	526,788	537,324
Miscellaneous Recoveries/Income	(419,785)	(271,968)	(148,799)	(151,775)	(154,810)
Total Administration	4,536,549	4,090,361	5,856,594	5,539,973	5,650,773
Investment Governance Costs	480,770	575,527	715,342	727,609	742,161
Committee Governance & Projects	157,012	157,012	162,931	158,030	161,190
Actuarial & Compliance costs	1,045,830	1,047,349	1,164,275	1,187,561	1,211,312
Salaries	977,538	955,867	1,095,011	1,116,911	1,139,249
Compliance Costs recharged	(273,442)	(261,056)	(273,442)	(278,911)	(284,489)
Governance & Compliance	2,387,708	2,474,699	2,864,117	2,911,199	2,969,423
Pensions Board	23,102	17,523	23,102	23,564	24,035
Global Custodian Fees	46,200	49,691	50,000	51,000	52,020
Brunel Management Fees	1,576,000	1,645,376	1,890,000	1,927,800	1,966,356
<u>Investment Manager Fees</u>					
Annual Management Fees	17,890,628	15,916,391	17,663,666	18,723,486	19,846,895
Performance Related Fees	5,359,977	5,229,678	3,122,611	3,309,968	3,508,566
Investment Fees	24,872,805	22,841,135	22,726,277	24,012,254	25,373,837
TOTAL COST TO FUND	31,820,164	29,423,718	31,470,090	32,486,990	34,018,068

18,949

<u>Cash Flow Forecast</u>		<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
(Excluding Administration and Investment costs)		£'000	£'000	£'000
Benefits Outflows				
Benefits	Pensions	(205,458)	(209,156)	(212,084)
	Lump sums	(39,341)	(40,049)	(40,610)
Total Benefits Outflows		(244,799)	(249,205)	(252,694)
Inflows				
Deficit recovery		4,912	5,123	5,195
Deficit recovery - paid in advance		9,426	10,746	32,930
Future service Contributions		140,596	149,708	151,804
Future service Contributions - paid in advance		62,889	62,889	63,769
Total Contributions		217,823	228,466	253,698
Net Cash Flow (excluding Administration & Investment costs)		(26,976)	(20,739)	1,004
Divestments & Investment income received as cash		40,700	34,610	13,060
Net Pension Transfers In / Out		0	0	0
Cash outflow due to administration of the Fund		(13,625)	(13,870)	(14,064)
Net Cash Flow (Out-Flow)		99	1	0
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 2026/27 assumes employers will pay their deficit three years in advance.				

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Administration Strategic Roadmap 2024-25

Claire Newbery

Pensions Operations Manager

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Avon
Pension
Fund



Your pension, your future

Agenda



Look back over last 12 months – and progress made

Next 12 months 2024-25

Strategic Roadmap

Look back over last 12 months



2023 state and what we have achieved



2023 State

What we have achieved

Service quality below standards and backlogs



- ✓ Stabilised service and building enablers for future improvement
- ✓ Focus on backlog resolution and oldest cases
- However service quality remains materially below target standards

High vacancy rate c.16%



- ✓ Salary review with Aon complete – market supplements applied
- ✓ Improved recruitment process (support from Aon & BANES)
- ✓ Key posts recruited for – and temporary positions made permanent
- ✓ Extended training team from 1 to 2 FTE's
- ✓ Vacancy rate in Q1 2024 of 9%

Multiple planned projects



- ✓ Launched new member website and new brand in Q1 2024
- ✓ Exited from Avon Fire Scheme – team now fully LGPS focused
- ✓ Moved AVC Provider from Aviva to L&G

Limited MI



- Improved MI which is now informing operational decisions
- Now embedded in day-to-day decisions

Increasing volumes of data (i-Connect)



- ✓ Digital Services team created
- Though iConnect data not fully automated with significant manual work

Limited digitalisation



- ✓ New member website has improved webforms for member contact
- ✓ Removed duplication from leaver process
- ✓ Much more to do – but we have started the digital journey

New challenges in 2023 and what we have achieved

New Challenges in 2023

What we have achieved

New McCloud regulations without full SAB guidance



- ✓ McCloud regulations adopted and followed from 1 October 2023
- ✓ Workaround implemented for system issue – now resolved

Loss of Payroll team officers



- ✓ Stabilised Payroll team
- ✓ Payroll Manager now appointed

Pension Increase project



- c.800 members compensated in phase-1 and monthly pensions now correct
- c.500 members will be resolved in phases 2/3/4 during 2024

GMP project initiation



- ✓ Reconciliation complete – rectification analysis in progress
- ✓ Strategic decisions to be brought to Committee for approval later in 2024.

Work in progress



- Service levels have stabilised – but remain well below required standards
 - though good progress addressing older backlogs and using improved MI.
- Resource constraints prevented Employer website and Bulk processing projects from progressing.
- The Fund continues to build service enablers: people capacity, skills, technology

Next twelve months 2024-25



Objectives



- Compliant with regulations
- Enablers for future service improvement
- Improve members' service experience
- Greater operational efficiency

Compliant with regulations



Pension Increase issue	<ul style="list-style-type: none">▪ Ensure annual PI run is operating correctly▪ Complete phases 2-4 to resolve remaining c.500 members
McCloud	<ul style="list-style-type: none">▪ Continue to apply McCloud rules to new retirements▪ Remedy historic cases (existing retirements)
Guaranteed Minimum Pension	<ul style="list-style-type: none">▪ Analyse and rectify GMP cases to finalise affected members' income
Pensions Dashboard	<ul style="list-style-type: none">▪ Cleanse APF member records▪ Procure ISP data hub required to link with Dashboard
Annual obligations	<ul style="list-style-type: none">▪ Annual Benefit Statements▪ Pensions Savings Statement▪ Annual Report

Enablers for future service improvement



<p>Capacity & Skills</p>	<ul style="list-style-type: none"> ▪ Recruit to full capacity in current structure of 87 FTEs ▪ Train all new recruits to maximise their skills and effectiveness
<p>Organisational Structure</p>	<ul style="list-style-type: none"> ▪ Complete pay review and new pay framework with Korn Ferry ▪ Build new teams, e.g. Business Change ▪ Recruit and implement 5 FTE increase in capacity to 92 FTEs
<p>Controls</p>	<ul style="list-style-type: none"> ▪ Review controls and reconciliations across administration ▪ Implement proportionate controls to improve efficiency and reduce operational risks
<p>Admin Strategy</p>	<ul style="list-style-type: none"> ▪ Review service targets – to ensure alignment with member needs ▪ Gain Committee approval for any changes and implement before end-2024 ▪ Service Level Agreement with Employers

Improve members' service experience



Service levels	<ul style="list-style-type: none">▪ Use additional capacity to drive service improvements
New members to Avon Pension Fund	<ul style="list-style-type: none">▪ Shorten new joiner letter and apply 'plain English' principles
Digitalise key member events & tasks	<ul style="list-style-type: none">▪ Regularly improve capability of avonpensionfund.org.uk▪ Develop My Pension Online – focused on improvements with greatest member impact and gain for operational efficiency

Greater operational efficiency ...

New employer website	<ul style="list-style-type: none">▪ Upgrade employer website – to remain supported and resilient▪ Improve capability to automate and enable greater self-serve
Payroll	<ul style="list-style-type: none">▪ Implement 'admin-to-pay' to automate all data exchanges between the Altair admin and payroll systems
Develop bulk processes for data	<ul style="list-style-type: none">▪ Automate key processes and aggregate tasks into groups which can be managed in bulk
i-Connect¹	<ul style="list-style-type: none">▪ Improve efficiency of data exchange between iConnect and Altair admin system▪ Automate same day post changes for members, e.g. those who change role through promotion in same employer

Note: 1) system for data exchange between employers and Avon Pension Fund

Strategic Roadmap



Context for strategic roadmap



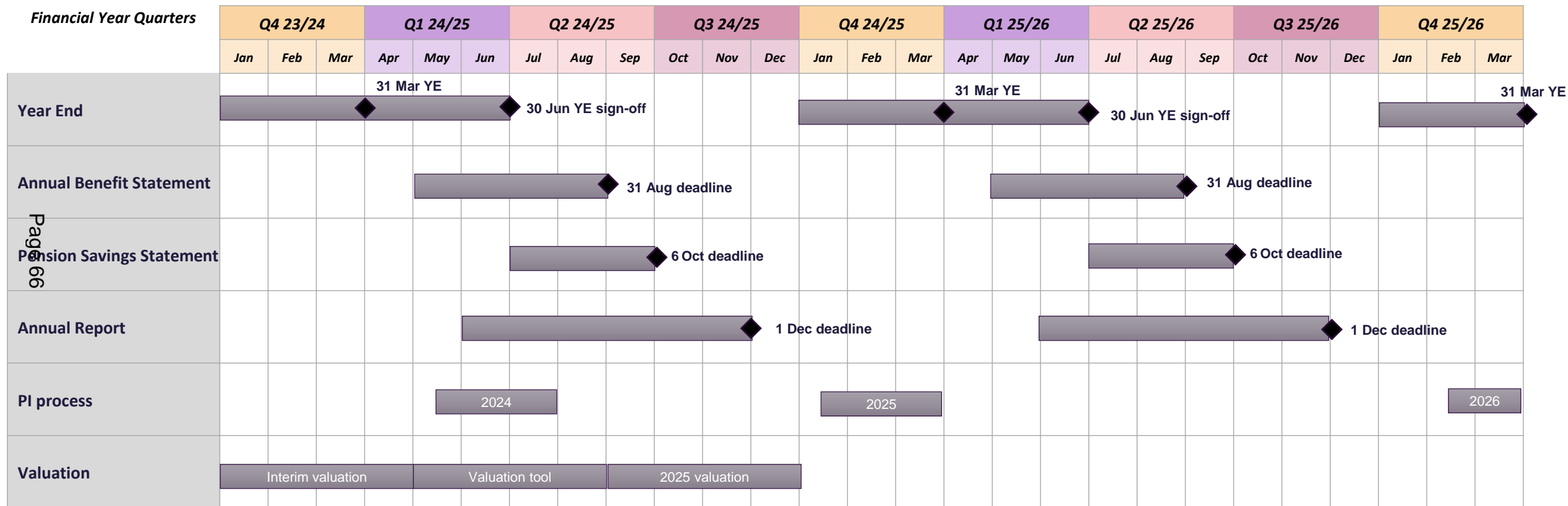
- During 2024 the Administration team will need to deliver regulatory projects – e.g. McCloud, GMP – along with obligations such as Annual Benefit Statements:
 - such projects absorb capacity of experienced resource and limit capacity for transformational change
- New teams – Business Change, Payroll, Digital Services – will progress digital projects starting in the second half of 2024.
- Focus will be on ‘key member events’ – such as joining the fund, retirement – seeking to drive self-serve to improve member experience and the Fund’s operational efficiency.
- For each event, we will assess the end-to-end process and how we transform the whole process across different systems: Altair, iConnect, My Pension Online, Employer website, etc.

Roadmap dependencies



1. Administration team capacity
2. Availability of Financial Systems' team support
3. B&NES Finance improvement programme
4. Organisational Restructure
5. Process control framework

Annual obligatory projects

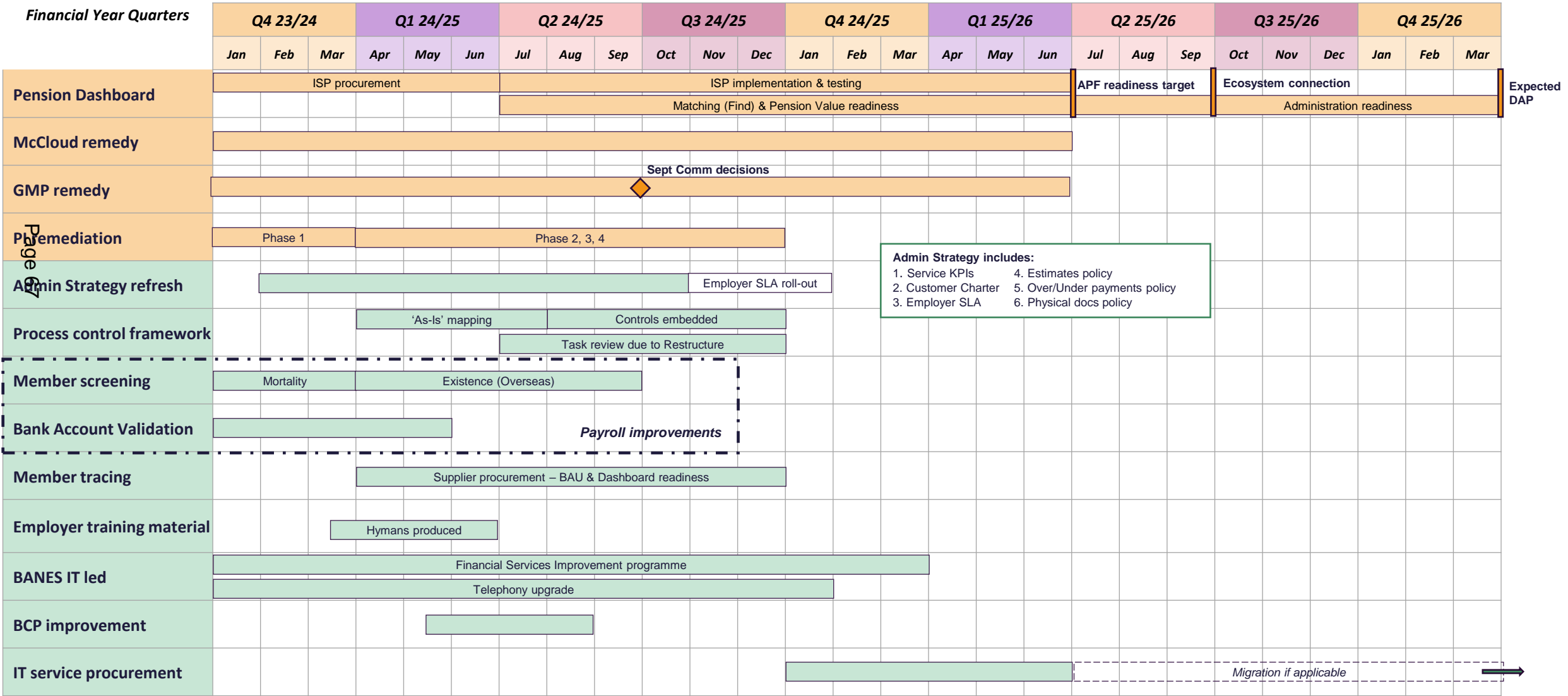


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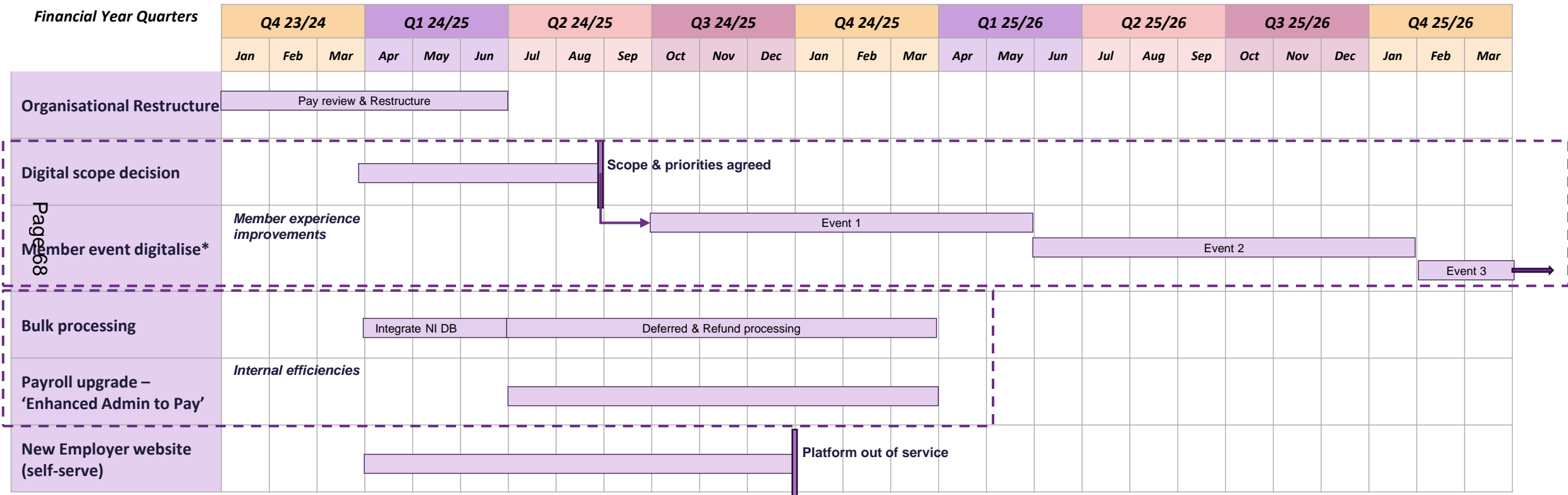
Regulatory & key enablers

Key:

- Regulatory
- Enablers



Transforming

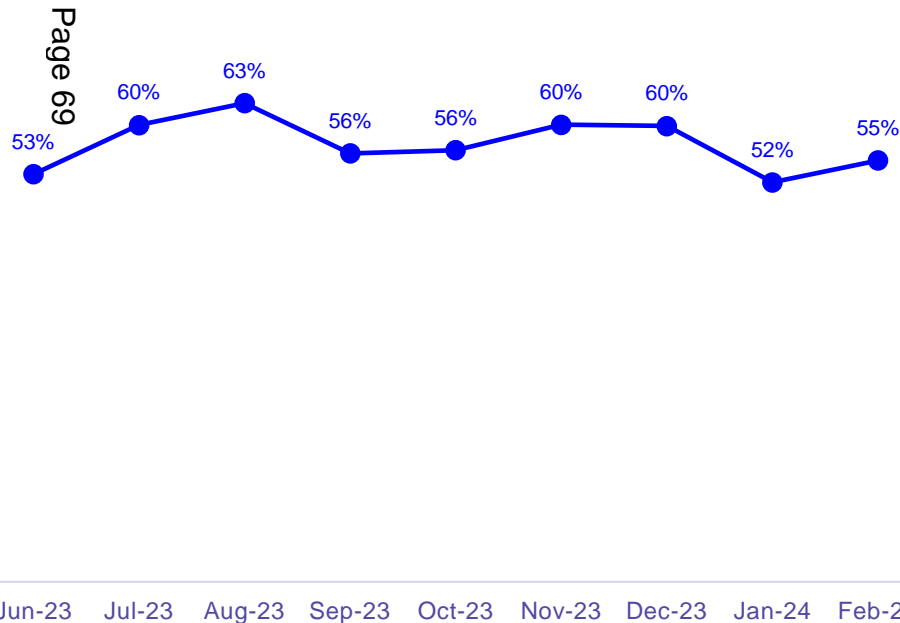


* Tools to be assessed and implemented based on best fit with APF digitalisation approach:

- New Altair & MPO improvements
- Enhanced member website functionality

Aggregate SLA performance is broadly stable – though we have been challenged with deaths & retirements

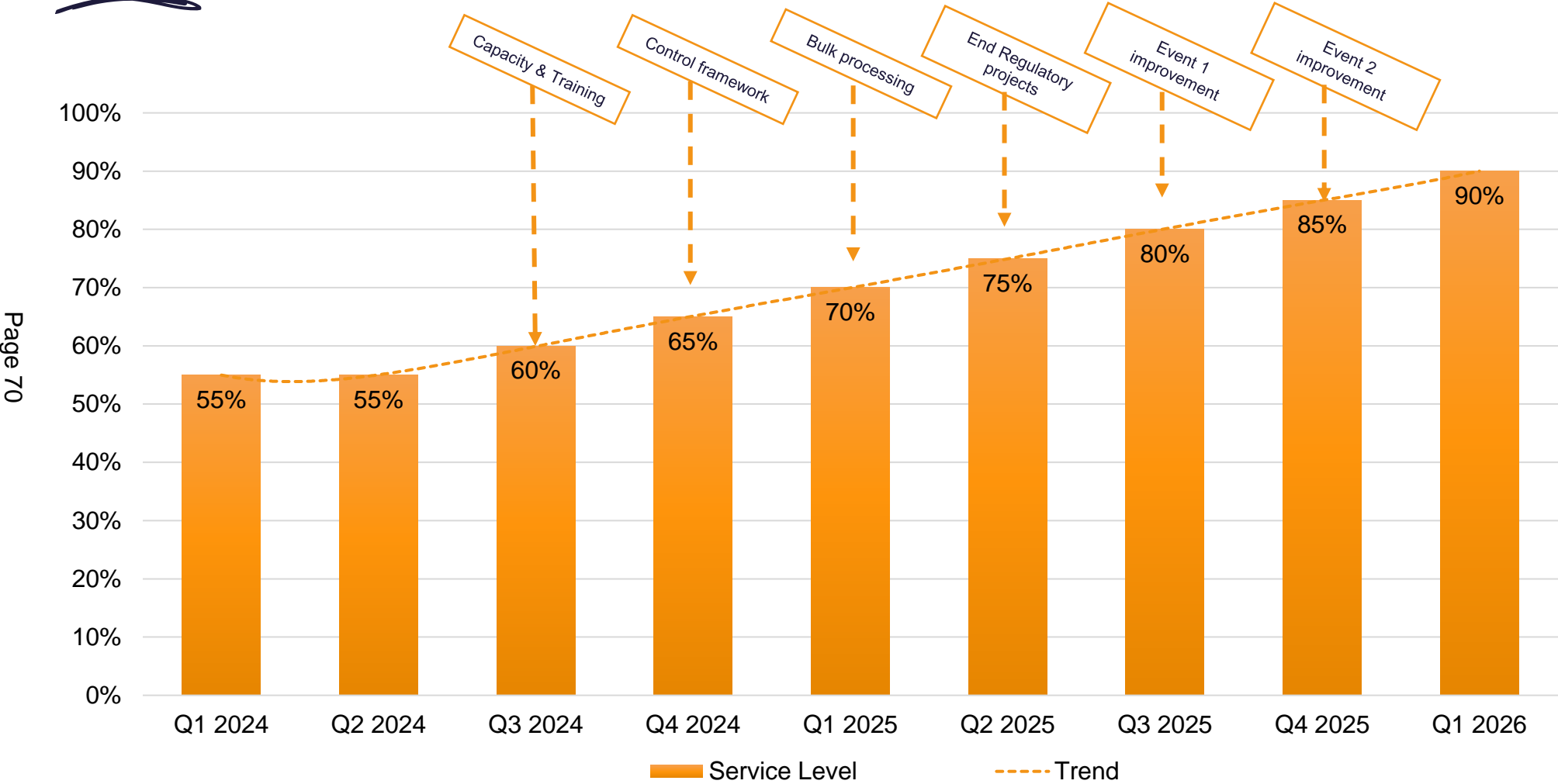
All KPI Cases
% completed within target times¹



Individual KPI Cases
% completed within target times

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Death Notification	25%	25%	59%	68%	74%	64%	92%	57%	20%
Death - Act/Def/Pen - Payment	76%	67%	87%	47%	77%	79%	84%	76%	68%
Retirement (Active) - Quote	58%	72%	37%	37%	30%	25%	39%	32%	37%
Retirement (Active) - Actual	64%	86%	60%	91%	68%	73%	83%	77%	76%
Retirement (Deferred) - Quote	83%	97%	62%	36%	34%	28%	38%	17%	30%
Retirement (Deferred) - Actual	54%	78%	71%	50%	90%	83%	73%	52%	33%
Divorce - Quote		82%	100%	92%	100%	67%	84%	39%	78%
Divorce - Actual		0%			100%			100%	
Refund - Quotes	0%	24%	24%	25%	5%	26%	15%	31%	66%
Refund - Actual	50%	19%	62%	89%	72%	93%	37%	12%	31%
Deferred Benefits	50%	72%	64%	44%	34%	73%	35%	35%	50%
Transfer In (Active) - Quote	0%	50%	6%	50%	0%	9%	19%	20%	17%
Transfer In (Active) - Actual		50%	56%	67%	18%	54%	50%	0%	29%
Transfer Out (Active/Deferred) - Quote		45%	41%	0%	22%	4%	29%	14%	17%
Transfer Out (Active/Deferred) - Actual		44%	40%	0%	55%	94%	100%	100%	100%
Employer Estimate - Quote	74%	67%	100%	79%	60%	54%	50%	93%	89%
Member Estimate - Quote	78%	99%	98%	81%	83%	92%	88%	94%	99%
Joiner	82%	98%	98%	98%	96%	99%	99%	93%	100%
SLA Performance - average	53%	60%	63%	56%	56%	60%	60%	52%	55%
SLA Performance - death & retirement	65%	75%	55%	48%	49%	57%	65%	40%	39%

Service performance – plan SLA improvements over 2024-26



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Thank you



If you have any questions please contact:

Claire Newbery

Pensions Operations Manager

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Avon
Pension
Fund



Your pension, your future

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Bath & North East Somerset Council	
MEETING:	Avon Pension Fund Committee Meeting
MEETING DATE:	22 March 2024
TITLE:	PENSION FUND ADMINISTRATION Overview & Summary Performance Report
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Performance against SLA & Workload</p> <p>Appendix 2 – TPR Data Improvement Plan</p>	

1 THE ISSUE

1.1 The purpose of this report is to present the Fund’s administration performance for the three months to 31st December 2023 vs key performance indicators (KPI’s).

2 RECOMMENDATION

The Committee:

2.1 Notes the service performance for the period ending 31st December 2023.

3 PERFORMANCE –

3.1 Appendix 1 summarises service performance vs SLAs¹ to 31st December 2023. The Fund is operating materially below its target of >90% for the majority of case types (Annex 1) and Annex 2 illustrates cases completed within/outside of the SLA. Service levels remain stable and no deterioration has occurred, though service levels remain materially below where they need to be. A separate presentation will be given at the meeting on all administration service measures to give the board a broader sense of current workload.

3.2 The following are key factors continuing to impact performance.

People:

- The fund is still not operating at full capacity with ongoing recruitment. Internal movement continues across the teams as officers apply for roles internally.
- Service impacted by 3 officers off on long term sick.

¹ service level agreements

- Despite ongoing recruitment, our vacancy rate remains at 10% with 7 posts currently being advertised and 7.5 positions under offer but officers not yet started.

McCloud:

- Officers have been working with new regulations since 1 October 2023, however due to a bug in the latest software released in December, all retirements with an underpin must be manually checked and calculated taking additional time to process. A fix to the software is due in late February.
- Due to outstanding McCloud guidance from the Scheme Advisory Board (SAB) we continue to stockpile transfers in/out, divorce and deferred cases if they are affected by the underpin.
- Planning has begun for the remedy with a regulatory completion deadline of August 2025. A more detailed report including case in scope will be provided in the next meeting. (subject to SAB guidance).

GMP

- The fund is in the final stages of reviewing the Closure Report for member reconciliation. 14,066 members have been identified as “stalemate cases” out of a population of 91,369 members. The review will be completed in April and we plan to bring recommendations to the Pension Committee in June.

Pension Increases:

- The rectification project has been split in to 4 phases with phase 1 due to complete in March 2024, this first phase will rectify c750 members. The fund is continuing to brief the board and committee sub group with key milestones.

- Avon Fire Service Exit:

- Considerable resource was deployed to the project team in the lead up to the exit of the scheme from 1st February. The transfer to West Yorkshire pension fund has successfully completed with payroll and data being securely transferred to the new service provider.

Payroll:

- Three senior technical payroll officers have been appointed to the team (internal movement) with the Pensions Payroll Manager role now at the advert stage. These appointments have created vacancies within the Member Services team which are also at the advert stage.
- The payroll team are supporting the PI project as we move into the final stages of rectification for phase one.
- Following a further review of internal controls and the whole pensioner population, we have identified 46 cases where a pensioner has been overpaid due to short term to long term pension not being amended. These cases will be rectified over the next few months in line with PASA guidelines.
- 19 case of Tier 3 ill health have been identified as possible overpayments and will be reviewed for potential overpayment by the end of March.

Process weaknesses:

- Bulk process fixes via our software provider are not currently available to address data issues.

Management Information:

- The fund now uses MI to manage workflow decisions on a weekly basis. As MI continues to evolve our capacity to understand work and workflow continues to develop.

4 PROGRESS

4.1 Progress continues across the administration; the main points are as follows:

People:

- Key recruitment continues in advance of the re-structure, including the Website Development Manager and Pensions Payroll Manager.
- 7.5 posts have been recruited to in the period and we are now starting to fill additional posts that are in the new structure.

Demand:

- The member contact team remain on top of incoming phone calls and emails, responding to most enquiries within 48 hours despite chasers accounting for 25% of incoming calls and emails.

The reduced phone service has been extended until the end of February, supporting focus time for member servicing and complex case review. No detrimental impact on member servicing has been identified during this period and we continue discussions with BANES Customer Services.

5 YEAR END & VALUATION

- 5.1 2024 is an interim valuation year and 12 employers have been identified for the valuation process.
- 5.2 Data from a valuation tool provided by Mercer is being used to identify and cleanse areas of data that have an impact on the employer valuation.

6 SUMMARY OF FUND MEMBERSHIP DATA QUALITY

- 6.1 The Fund maintains a Common Data score above 95%. The TPR² report summarises an annual view of outstanding cases for the last 12 months, please refer to Appendix 2.
- 6.2 The missing Care Pay cases continue to be reviewed and the overall case workload is reducing.

7 RISK MANAGEMENT

- 7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund, with 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

² The Pensions Regulator

regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

8 EQUALITIES STATEMENT

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

9 CLIMATE

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

10 OTHER OPTIONS CONSIDERED

15.1 None.

11 CONSULTATION

11.1 The Council's Director of One West & APF has had the opportunity to input to this report and has cleared it for publication.

Contact person	Claire Newbery Pensions Operations Manager 01225 395247
Background papers	Various statistical documents
Please contact the report author if you need to access this report in an alternative format.	

Annex 1 Overall Performance by Case Type

		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
Death Notification	5 Days	136	102	75.0%	22	91.2%
Death - Act/Def/Pen - Payment	10 Days	118	94	79.7%	8	86.4%
Retirement (Active) - Quote	15 Days	361	100	27.7%	15	31.9%
Retirement (Active) - Actual	15 Days	285	212	74.4%	11	78.2%
Retirement (Deferred) - Quote	30 Days	539	162	30.1%	68	42.7%
Retirement (Deferred) - Actual	15 Days	304	247	81.3%	28	90.5%
Divorce - Quote	45 Days	51	45	88.2%	1	90.2%
Divorce - Actual	15 Days	4	4	100.0%	0	100.0%
Refund - Quotes	10 Days	1368	155	11.3%	102	18.8%
Refund - Actual	10 Days	184	119	64.7%	13	71.7%
Deferred Benefits	30 Days	471	147	31.2%	101	52.7%
Transfer In (Active) - Quote	10 Days	50	12	24.0%	3	30.0%
Transfer In (Active) - Actual	10 Days	29	6	20.7%	8	48.3%
Transfer Out (Active/Deferred) - Quote	10 Days	74	13	17.6%	4	23.0%
Transfer Out (Active/Deferred) - Actual	10 Days	21	18	85.7%	1	90.5%
Employer Estimate - Quote	15 Days	29	19	65.5%	1	69.0%
Member Estimate - Quote	15 Days	96	83	86.5%	8	94.8%
Joiner	40 Days	4357	4316	99.1%	5	99.2%

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

Annex 2

Case No's vs Target

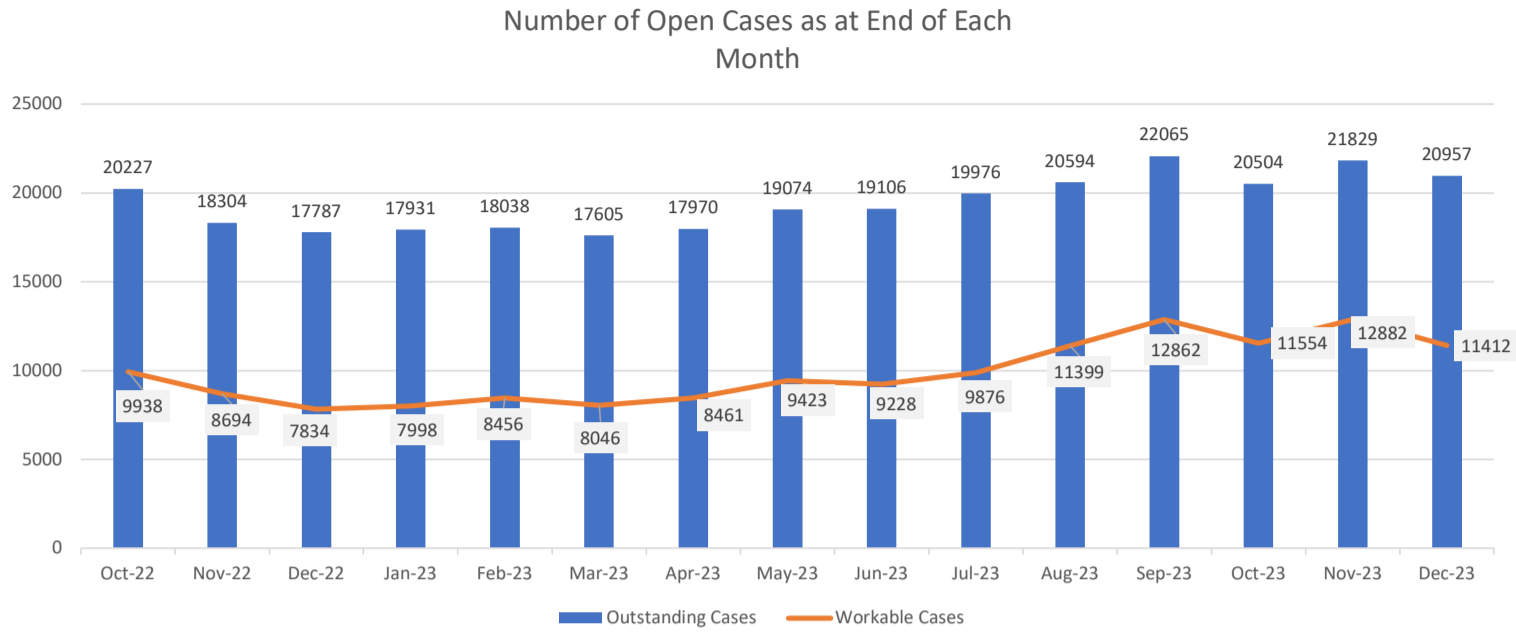
		Tasks Last Quarter										
		Actual Days to Process										
	Average Days to Process	0 to 5	6 to 10	11 to 15	16 to 20	21 to 25	26 to 30	31 to 40	41 to 45	46 to 59	60+	
Death Notification	5 Days	6	102	22	5	5	0	0	1	0	0	1
Death - Act/Def/Pen - Payment	10 Days	9	68	26	8	5	1	2	2	3	3	0
Retirement (Active) - Quote	15 Days	27	45	35	20	15	21	26	52	22	59	66
Retirement (Active) - Actual	15 Days	17	160	38	14	11	9	8	5	1	4	35
Retirement (Deferred) - Quote	30 Days	35	53	14	20	15	34	26	68	22	84	203
Retirement (Deferred) - Actual	15 Days	17	169	52	26	28	7	4	2	0	1	15
Divorce - Quote	45 Days	29	5	6	4	5	7	10	8	0	1	5
Divorce - Actual	15 Days	34	0	4	0	0	0	0	0	0	0	0
Refund - Quotes	10 Days	71	73	82	102	32	13	16	50	21	56	923
Refund - Actual	10 Days	33	69	50	13	16	18	5	7	0	2	4
Deferred Benefits	30 Days	50	46	27	17	24	10	23	101	21	41	161
Transfer In (Active) - Quote	10 Days	24	11	1	3	3	3	3	6	1	1	18
Transfer In (Active) - Actual	10 Days	38	4	2	8	3	1	1	0	0	2	8
Transfer Out (Active/Deferred) - Quote	10 Days	44	10	3	4	3	3	3	7	7	10	24
Transfer Out (Active/Deferred) - Actual	10 Days	33	14	4	1	0	0	0	0	0	0	2
Employer Estimate - Quote	15 Days	15	10	7	2	1	3	0	2	1	2	1
Member Estimate - Quote	15 Days	8	57	17	9	8	0	1	1	0	0	3
Joiner	40 Days	4	1955	1119	760	315	119	37	11	5	9	27

Annex 3 Trend in Overall Performance

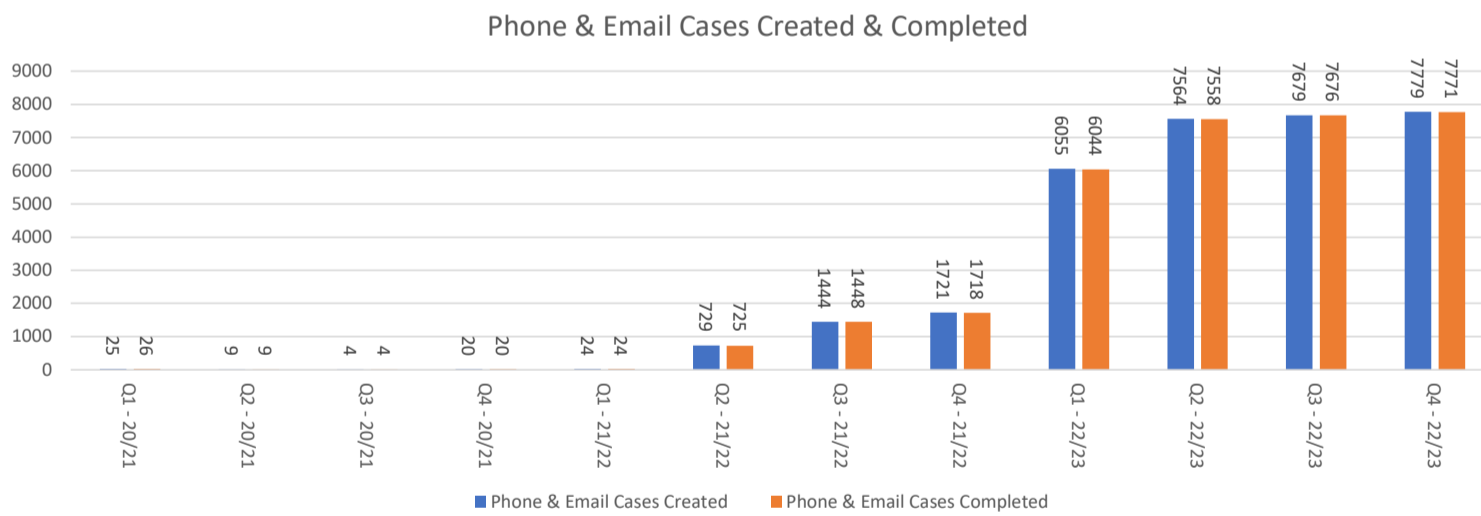
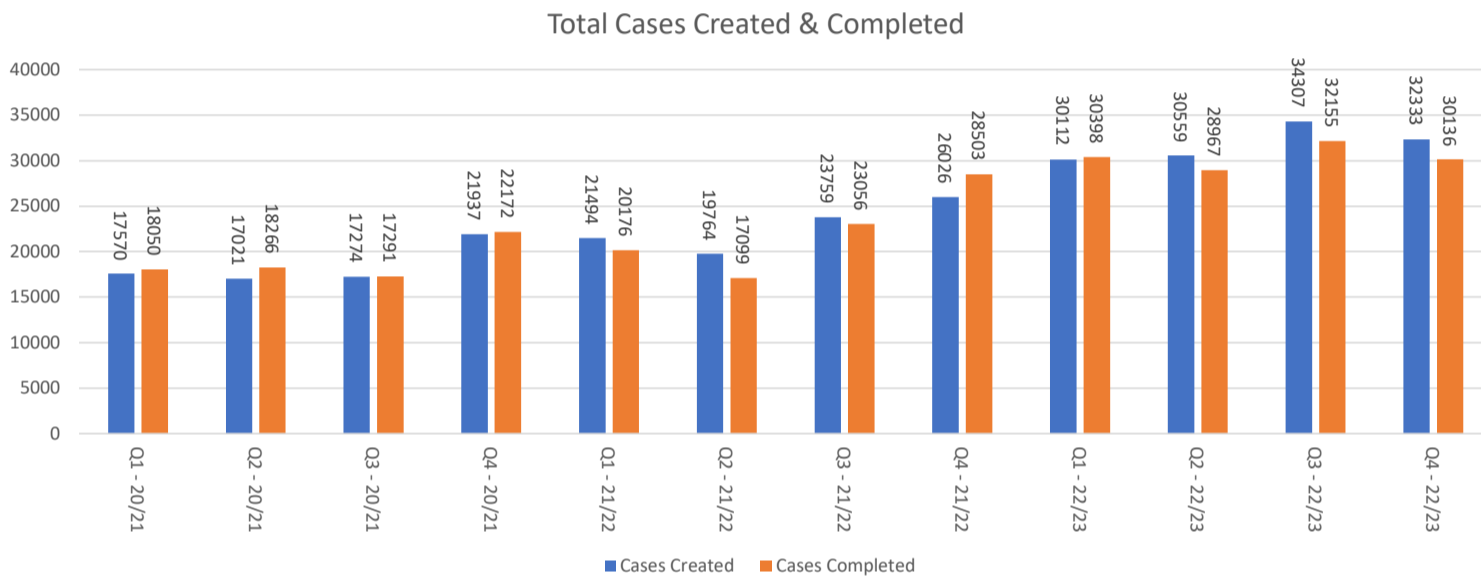
Work Type	Target Processing SLA	Q1 Jan-23 to Mar-23	Q2 Apr-23 to Jun-23	Q3 Jul-23 to Sep-23	Q4 Oct-23 to Dec-23	Trend
Death Notification	5 Days	86.4%	73.8%	57.1%	75.0%	
Death - Act/Def/Pen - Payment	10 Days	90.7%	65.3%	72.5%	79.7%	
Retirement (Active) - Quote	15 Days	63.3%	44.0%	52.1%	27.7%	
Retirement (Active) - Actual	15 Days	76.1%	62.5%	75.1%	74.4%	
Retirement (Deferred) - Quote	30 Days	84.7%	70.1%	49.8%	30.1%	
Retirement (Deferred) - Actual	15 Days	80.5%	66.9%	71.4%	81.3%	
Divorce - Quote	45 Days	96.9%	90.9%	80.2%	88.2%	
Divorce - Actual	15 Days	100.0%	50.0%	0.0%	100.0%	
Refund - Quotes	10 Days	41.0%	1.7%	33.1%	11.3%	
Refund - Actual	10 Days	63.9%	29.4%	49.0%	64.7%	
Deferred Benefits	30 Days	52.6%	39.4%	54.0%	31.2%	
Transfer In (Active) - Quote	10 Days	55.1%	2.3%	23.5%	24.0%	
Transfer In (Active) - Actual	10 Days	51.1%	12.5%	40.0%	20.7%	
Transfer Out (Active/Deferred) - Quote	10 Days	49.3%	33.3%	32.8%	17.6%	
Transfer Out (Active/Deferred) - Actual	10 Days	73.1%	45.5%	51.4%	85.7%	
Employer Estimate - Quote	15 Days	74.5%	82.4%	55.3%	65.5%	
Member Estimate - Quote	15 Days	76.4%	87.1%	92.0%	86.5%	
Joiner	40 Days	99.7%	99.3%	98.6%	99.1%	

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

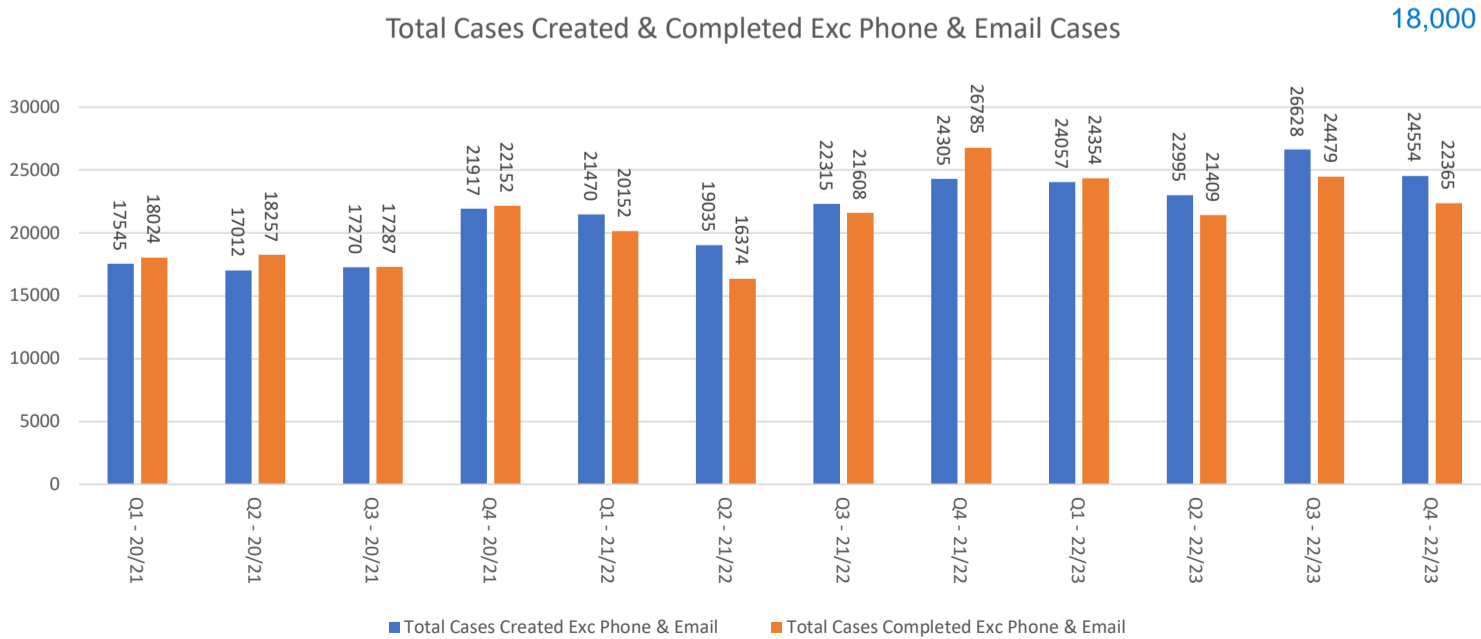
Annex 4



Annex 5



Material increase in new cases created
18,000 >> 24,000



TPR Error Numbers by Error Type

Annex 1 – TPR Errors by Member Numbers

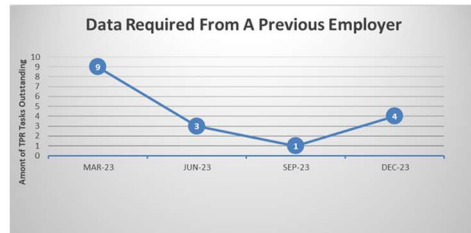
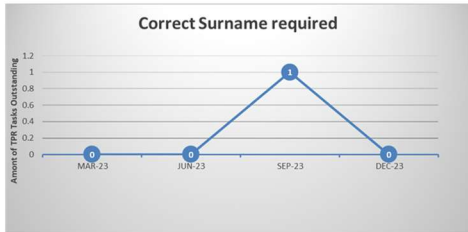
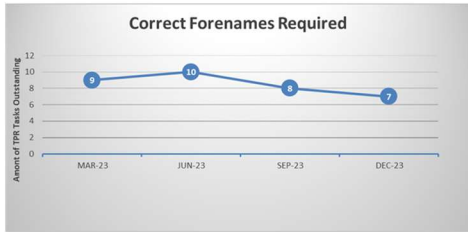
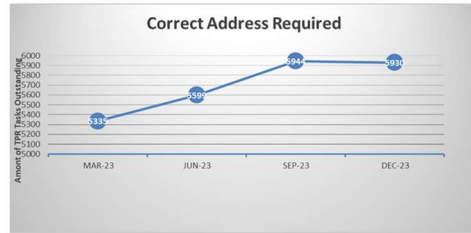
	Sep-23				Dec-23				*Trend
	Member Records	TPR Errors	% Errors	Data Score	Member Records	TPR Errors	% Errors	Data Score	
ACTIVE	40608	314	0.77%	99.23	40952	144	0.35%	99.65	-170
UNDECIDED	7115	260	3.65%	96.35	6995	144	2.06%	97.94	-116
DEFERRED	45134	4024	8.92%	91.08	45006	4052	9.00%	91.00	+28
PENSIONERS	36561	481	1.32%	98.68	36788	468	1.27%	98.73	-13
DEPENDANTS	5413	150	2.77%	97.23	5354	138	2.58%	97.42	-12
FROZEN	6628	1766	26.64%	73.36	7267	1870	25.73%	74.27	+104
TOTALS	141459	6995	4.94%	95.06	142362	6816	4.79%	95.92	-179

Annex 2 – Outstanding Queries by Type (there may be multiple queries per member)

	Sep-23		Dec-23		*Trend
	TPR Errors	%	TPR Errors	%	
Age 75 Exceeded Lgps Eligibility Issue	77	1.10%	93	1.36%	+16
Care Pay For 2014-2015 Required	1	0.01%	1	0.01%	0
Care Pay For 2015-2016 Required	3	0.04%	3	0.04%	0
Care Pay For 2016-2017 Required	5	0.07%	2	0.03%	-3
Care Pay For 2017-2018 Required	9	0.13%	2	0.03%	-7
Care Pay For 2018-2019 Required	11	0.16%	3	0.04%	-8
Care Pay For 2019-2020 Required	18	0.26%	6	0.09%	-12
Care Pay For 2020-2021 Required	17	0.24%	10	0.15%	-7
CARE pay for 2021-2022 required	48	0.69%	20	0.29%	-28
CARE pay for 2022-2023 required	92	1.32%	19	0.28%	-73
CARE pay for 2023-2024 required	0	0.00%	0	0.00%	0
Casual Hours Data Required	1	0.01%	1	0.01%	0
Correct Address Required	5944	84.97%	5930	87.00%	-14
Correct Forenames Required	8	0.11%	7	0.10%	-1
Correct Gender Required	0	0.00%	0	0.00%	0
Correct Hours Format Required	0	0.00%	0	0.00%	0
Correct Nino Required	162	2.32%	162	2.38%	0
Correct Title Required ie Miss Or Mr	1	0.01%	1	0.01%	0
Data Required From A Previous Employ	1	0.01%	4	0.06%	+3
Date Joined Fund Required	3	0.04%	4	0.06%	+1
Historic Refund Case	476	6.80%	474	6.95%	-2
Leaver Form Required	117	1.67%	63	0.92%	-54
Pay Ref Required	0	0.00%	11	0.16%	+11
Correct Surname Required	1	0.01%	0	0.00%	-1
Correct Date Of Birth Required	0	0.00%	0	0.00%	0
Grand total	6995	100%	6816	100%	

*Trend is influenced by number of errors

TPR Error Numbers by Error Type



TPR Error Numbers by Status



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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	22 MARCH 2024	
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 Committee is asked to approve the Fund's Treasury Management policy each year. It was last approved in March 2023. The policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy.
- 1.2. The policy proposed for 2024/25 set out in Appendix 1 is the same as the policy approved in March 2023. 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 £84m 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), Handelsbanken Call Account and its own call account with Nat West. The MMFs include Goldman Sachs, Federated Investors, Aberdeen Asset management, State Street, Invesco, Morgan Stanley and CCLA Public Sector Deposit Fund. The rules of access to these accounts particularly suit the Fund's cash flow requirements.

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 2 to 3 months of net outgoings.

4.6. The level of cash that can be held on the Fund's behalf is currently £77m. The maximum investment for CCLA has been decreased to £5m following advice by the Council's Treasury Management Advisors.

4.7. Any changes to the Treasury Management Policy made in the last two years are noted within Appendix 1.

4.8. The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria because 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. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

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. OTHER OPTIONS CONSIDERED

8.1. None.

9. CONSULTATION

9.1. The Council's Director of One West & APF 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 2024

- 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 Deposit Fund (<i>Limit amended March 2024</i>)	£5m	2 months
Invesco AIM (<i>Added March 2023</i>)	£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-	£10m	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 2023
- 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.

Credit Rating Comparison Table

Fitch		Moddy's		S&P			
L-Term	S-Term	L-Term	S-Term	L-Term	S-Term		
AAA	F1+	Aaa	P-1	AAA	A-1+	Prime	Investment Grade
AA+		Aa1		AA+		High Grade	
AA		Aa2		AA		High Grade	
AA-		Aa3		AA-		High Grade	
A+	F1	A1	P-2	A+	A-1	Upper Medium Grade	
A		A2		A		Upper Medium Grade	
A-	F2	A3	P-2	A-	A-2	Upper Medium Grade	
BBB+		Baa1		BBB+		Upper Medium Grade	
BBB	F3	Baa2	P-3	BBB	A-3	Lower Medium grade	
BBB-		Baa3		BBB-		Lower Medium grade	
BB+	B	Ba1	Not Prime	BB+	B	Non-Investment Grade (Speculative)	Non-Investment Grade (junk)
BB		Ba2		BB		Non-Investment Grade (Speculative)	
BB-		Ba3		BB-		Non-Investment Grade (Speculative)	
B+		B1		B+		Highly Speculative	
B		B2		B		Highly Speculative	
B-		B3		B-		Highly Speculative	
CCC	C	Caa1	Not Prime	CCC+	C	Substantial Risk	
		Caa2		CCC		Extremely Speculative	
		Caa3		CCC-		Extremely Speculative	
CC		Ca		CC		Default imminent with little prospect for recovery	
C		Ca		C		Default imminent with little prospect for recovery	
D		/		D		In Default	

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

Proposed Counterparty List - Unsecured Bank Investments

2024/25									
CRITERIA									
	Duration	Fund Limit	FITCH RATINGS			Moody's Ratings		S&P Ratings	
			S/Term	L/Term	Outlook	S/Term	L/Term	S/Term	L/Term
UK Banks			Sovereign Rating		AA-		Aa3		AA
Barclays Bank plc	2 months	10	F1	A+	STABLE	P-1	A3	A-1	A+
HSBC Bank plc	2 months	10	F1+	AA-	STABLE	P-1	A1	A-1	A+
<u>Lloyds Banking Group</u>									
LLOYDS BANK PLC	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
BANK OF SCOTLAND PLC	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
<u>Royal Bank of Scotland Group</u>									
National Westminster Bank plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
Royal Bank of Scotland plc	2 months	10	F1	A+	STABLE	(P)P-1	A1	A-1	A+
Nat West Markets Plc	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Santander UK plc (domiciled in UK)	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A
Standard Chartered Bank	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
Handelsbanken	2 months	10	F1+	AA	STABLE			A-1+	AA-
UK Building Societies									
Nationwide	2 months	10	F1	A+	STABLE	P-1	A1	A-1	A+
UK: LOCAL AUTHORITIES									
ABERDEEN CITY COUNCIL	2 months	10					A2		
CORNWALL COUNCIL	2 months	10					A1		
GREATER LONDON AUTHORITY	2 months	10						A-1+	AA
LANCASHIRE COUNTY COUNCIL	2 months	10					A2		
NORTH LONDON WASTE AUTHORITY	2 months	10					A1		
SUTTON LONDON BOROUGH OF	2 months	10					A1		
TRANSPORT FOR LONDON	2 months	10	F1+	AA-	NEG	P-2	A3	A-1	A+
UK: OTHER INSTITUTIONS									
UNITED KINGDOM	2 months	10	F1+u	AA-u	NEG		Aa3	A-1+u	AAu
OTHER LOCAL AUTHORITIES	2 months	10	F1+u	AA-u	NEG		Aa3	A-1+u	AAu
LCR FINANCE PLC	2 months	10		AA-	NEG		Aa3		AA
NETWORK RAIL INFRASTRUCTURE	2 months	unlimited		AA-	NEG	P-1	Aa3		
WELLCOME TRUST FINANCE PLC	2 months	10					Aaa		AAA
Foreign Banks									
Australia			Sovereign Rating		AAAu		Aaa		AAAu
AUST AND NZ BANKING GROUP	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
COMMONWEALTH BANK OF AUSTRAL	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
NATIONAL AUSTRALIA BANK LTD	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
WESTPAC BANKING CORP	2 months	10	F1	A+	STABLE	P-1	Aa3	A-1+	AA-
Canada			Sovereign Rating		AA+u		Aaa		AAA
BANK OF MONTREAL	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
BANK OF NOVA SCOTIA	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
CAN IMPERIAL BK OF COMMERCE	2 months	10	F1+	AA	STABLE	P-1	Aa2	A-1	A+
EXPORT DEVELOPMENT CANADA	2 months	10				P-1	Aaa	A-1+	AAA
NATIONAL BANK OF CANADA	2 months	10	F1+	AA-	STABLE	P-1	Aa3	A-1	A
ROYAL BANK OF CANADA	2 months	10	F1+	AA	STABLE	P-1	Aa1	A-1+	AA-
TORONTO-DOMINION BANK	2 months	10	F1+u	AAu	STABLE	P-1	Aa1	A-1+	AA-
Singapore			Sovereign Rating		AAAu		Aaa		A-1+u
DBS BANK LTD	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
OVERSEA-CHINESE BANKING CORP	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-
UNITED OVERSEAS BANK LTD	2 months	10	F1+	AA-	STABLE	P-1	Aa1	A-1+	AA-

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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	22 March 2024
TITLE:	INVESTMENT STRATEGY STATEMENT 2024
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report: Appendix 1 – Draft Investment Strategy Statement 2024</p>	

1 THE ISSUE

- 1.1 The Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the regulations), state that the Investment Strategy Statement (ISS) must be kept under review and revised from time to time particularly when there is a material change in risk and reviewed at least every three years. The ISS was last revised in March 2023 following the asset allocation review. The ISS is being updated to include changes arising from the review of the climate targets and the Equity Protection Hedge which was completed in 4Q23.
- 1.2 The regulations state that the administering authority must consult on the ISS as appropriate. The Pension Board will review the draft ISS for compliance with the regulations and any feedback will be considered by Committee in June.

2 RECOMMENDATIONS

The Committee:

- 2.1 **Approves the draft 2024 Investment Strategy Statement subject to feedback from the Pension Board.**
- 2.2 **Notes that the 2024 ISS will be published on the Fund’s website.**

3 FINANCIAL IMPLICATIONS

- 3.1 The costs of the investment strategy are provided for in the annual budgets (investment manager fees and advisory costs).

4 DRAFT ISS

4.1 The changes to the ISS are limited given it was updated in March 2023 following the review of asset allocation. The main changes are as follows:

a) Section 5 – Investment Strategy:

This has been updated to include the new climate targets, the Local Impact Portfolio and the 50% hedge of the equity assets.

b) All portfolio data, market and risk metrics have been updated to December 2023 values.

4.2 There was significant stakeholder engagement during the 2023 investment review focusing on our Net Zero targets and the level of risk within the strategy overall.

4.3 Two committee workshops were held to discuss the most financially material aspects of the investment strategy, in 1Q23 to consider asset allocations and in 4Q23 to consider net zero targets.

4.4 The full ISS is a statutory document primarily for the use by regulators, managers and other service providers. We intend to produce a shortened version aimed specifically at members and other stakeholders which will be available on our website alongside the full version.

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

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 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 Paris Aligned Global Equities, Sustainable 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 Director of One West & APF has had the opportunity to input to this report and has cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk 01225 395306
Background papers	None
Please contact the report author if you need to access this report in an alternative format.	

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Investment Strategy Statement 2024

1. Introduction

- 1.1 Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS'). This ISS has been prepared by the Avon Pension Fund (APF) in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance. This statement updates and replaces the 2023 ISS.
- 1.2 The purpose of the ISS is to set out:
- The governance arrangements for investments
 - APF's investment objectives
 - APF's investment beliefs
 - How APF will manage investment related risks
 - How APF incorporates responsible investment
 - The strategic asset allocation benchmark and ranges to provide flexibility
- 1.3 As stated above, the ISS outlines APF's approach to Responsible Investment (RI), how RI is integrated into the investment decision making process and how APF fulfils its role as a responsible steward of its assets. Particular attention is given to APF's short-, medium- and long-term ambitions around climate change. The strategy acknowledges the need to address the impact of climate change on its investment assets and capture new sources of return that will arise from the transition to a low carbon economy. The policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a lower carbon world. It has set clear climate objectives with milestones that will be delivered through its relationship with Brunel Pension Partnership to ensure that the investment portfolio is aligned with the Paris Agreement within a realistic timeframe.
- 1.4 The ISS is consistent with the Funding Strategy Statement (FSS) as well as a broader framework of investment policies, most notably those relating to Risk Management and Responsible Investment. An integrated approach ensures the investment strategy supports APF in meeting its regulatory requirements.
- 1.5 The ISS is subject to a review at least every three years and from time to time on any material changes to any aspects of APF which are judged to have a bearing on the stated investment strategy. Ongoing quarterly and annual monitoring of the strategy enables the APF Committee (the Committee) to take advice as to whether a review is needed at any time.
- 1.6 In preparing the ISS, the Committee has taken advice from Fund Officers and APF's appointed investment consultant. APF's Pension Board reviews the Investment Strategy Statement for compliance with the regulations.

Investment Governance Framework

1.7 APF is administered by Bath & North East Somerset Council, which is legally responsible for APF. The Council delegates its administration responsibility to the **Avon Pension Fund Committee**, which is its formal decision-making body. Members of the Committee represent a cross section of APF's stakeholders and therefore a range of views are taken into account when agreeing policy and strategy.

1.8 The Committee is supported by a sub-committee, the **Investment Panel** (the Panel), which considers matters relating to the management and investment of the assets of APF in greater detail. Although the Panel has delegated powers to take decisions on specific issues and makes recommendations to the Committee, setting the strategic asset allocation is the responsibility of the Committee. Operational implementation of strategy is delegated to Officers.

1.9 The **Funding & Risk Management Group** (FRMG) provides a robust and efficient governance framework for the Risk Management Strategies. This Group comprises Fund Officers, Investment and Risk advisors. FRMG has delegated authority for:

- (i) agreeing the operational structures required to meet the strategic objectives determined by the Committee and
- (ii) implementation of the Risk Management Strategies.

FRMG also monitors the strategies on a monthly basis and reports to the Panel on a quarterly basis.

1.10 In addition, the **Local Pension Board** has an oversight and scrutiny role to ensure good governance through monitoring of APF's performance, activity of the Committee and compliance with regulations and statutory duties. The Board's role is to assist the administering authority to ensure the management of the pension fund is effective and efficient.

1.11 Both the Committee and the Pensions Board have members and other stakeholder representatives who actively engage with stakeholders to ensure APF is aware and can respond effectively to stakeholder concerns.

1.12 APF actively engages with its stakeholders about the investment strategy, providing the opportunity for a wider range of stakeholders to give input as the Committee assesses key strategic considerations.

2. Approach to Pooling

2.1 APF participates with nine other administering authorities to pool its investment assets through the **Brunel Pension Partnership**. Brunel Pension Partnership Limited (Brunel) is authorised by the Financial Conduct Authority to manage the assets within the pool and is owned equally by the ten administering authorities that participate in the pool. These pooling arrangements meet the requirements of the Regulations and Government guidance.

2.2 APF retains responsibility for setting its strategic asset allocation and allocating assets to the portfolios provided by Brunel. Brunel is responsible for implementing the asset allocations of the participating funds (the

'clients') by investing the clients' assets within defined outcome focused investment portfolios. In particular, it selects the external managers or pooled funds which meet the investment objective of each portfolio. Brunel creates collective investment vehicles for liquid assets such as equities and bonds; for private market investments it creates and manages an investment programme with a defined investment cycle for each asset class.

- 2.3 As a client of Brunel, APF has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of APF as a client. It includes a duty of care of Brunel to act in its clients' interests.
- 2.4 The pool has established governance arrangements. The Brunel Oversight Board comprises representatives from each of the administering authorities and two member observers with agreed constitution and terms of reference. It oversees the pool, with responsibility for ensuring that Brunel delivers the services required to achieve pooling and deliver each client's investment strategy. Subject to its terms of reference it considers relevant matters on behalf of the administering authorities but does not have power to take decisions requiring shareholder approval; these are remitted back to each administering authority individually. The shareholder rights are set out in the Shareholders Agreement and other constitutional documents.
- 2.5 Brunel Oversight Board is supported by the Client Group which comprises investment officers from each of the clients but also draws on finance and legal officers as required. It has the primary role in managing the relationship with Brunel, providing practical support to the Brunel Oversight Board and monitoring Brunel's performance and service delivery. The APF Committee and Investment Panel receive regular reports covering investment performance and Brunel's service delivery.
- 2.6 Brunel manages all APF's listed assets, pooled funds and UK property funds as well as all new private market allocations with the intention that all assets will be invested through Brunel portfolios in time. There are legacy commitments to illiquid private market portfolios which will be transitioned to Brunel as they are liquidated and capital is returned. The formulation, implementation and ongoing monitoring of APF's risk management strategies (e.g. Liability Driven Investing and Equity Protection) remain the responsibility of APF and its specialist advisors. Brunel appointed the Risk Management manager, under a broad commercial agreement covering the manager's key terms.

3. Investment Beliefs

- 3.1 APF has the following investment beliefs which underpin the investment strategy and guide decision making around investment of APF's assets.

They are framed so that APF can meet the pension promises to members and maintain affordability for scheme employers.

- We believe in a long-term investment horizon. This enables a strategic approach to investment risk and capital allocation which will ultimately drive attractive investment returns.

- We believe diversification is core to managing risk, enabling a broad spectrum of investments with different risk profiles.
- We believe investing responsibly to make a positive contribution in the real economy will promote sustainable returns. We invest with 2045 net zero objectives and work with like-minded investors to engage and encourage positive change.
- We believe lower costs drive higher net investment returns. We use collective scale with Brunel to drive innovation and efficiencies to reduce costs.

4. Investment Objective

4.1 APF's investment objective is to achieve a return on assets consistent with an acceptable level of risk that will enable APF to fund its pension payments over time, that is, to achieve 100% funding in line with the Funding Strategy. The investment strategy must generate returns to stabilise and minimise employer contribution rates in the long-term, as well as reflect the balance between generating returns consistent with an appropriate level of risk, protecting asset values from market falls and matching liabilities.

4.2 At the 2022 actuarial valuation the best estimate average expected return was CPI+2.5% per annum based on the investment strategy. When setting the funding strategy a margin for prudence is taken on this return expectation; implementation of the risk management strategies (see Section 7) to reduce the volatility of returns within the investment strategy supports a lower margin for prudence. To achieve 100% funding for the 2022 valuation, a minimum investment return of CPI+1.50% per annum over 12 years was assumed in the Funding Strategy and for future benefit accruals, CPI+2.00% per annum was assumed. In the 2022/23 investment review the actuarial assumptions and best estimate returns used for modelling were updated for expected returns reflecting market prices at that time.

4.3 APF adopts a more prudent lower risk investment strategy for those liabilities where the employer has ceased to participate in APF or for certain admission bodies where there is no guarantee underpinning the liabilities. These assets are invested in a portfolio of corporate bonds that is designed to better match the risk profile of the employers' liabilities and reduce volatility in employer contributions.

5. Investment strategy

5.1 The investment strategy was reviewed in 2022/23 to ensure it is still meeting its strategic objectives. The strategic asset allocation is as follows:



5.2 Significant stakeholder engagement supported the 2022/23 strategic review. Views were sought as to the acceptable level of risk/return within the investment portfolio and whether to raise the level of ambition for reaching Net Zero. Feedback from the engagement sessions and member surveys were fed into the review's conclusions.

5.3 The current risk return profile is consistent with the funding objective to provide as stable as possible contribution for employers.

5.4 The strategic allocation between equities, liquid and illiquid growth assets, and fixed income achieves the appropriate balance of risk and return to provide stability of contributions.

5.5 The allocation to less liquid assets is 32.5%. A higher allocation does not improve the risk and return profile sufficiently to offset the illiquidity risk. The initial 3% allocation to Local/Social Impact investments, is funded from the existing 32.5% allocation to illiquid assets. This portfolio will focus on the South West as restricting to the Avon area could be too narrow to have sufficient impact through a diversified portfolio. National opportunities will also be considered to allow greater flexibility to meet the investment objectives.

Where local impact investments cannot be invested via Brunel portfolios they will be managed by external managers to manage conflicts of interest and ensure there is appropriate expertise in constructing the portfolio.

5.6 APF's Net zero target is 2045, underpinned by the following targets for action in the period 2024-2030:

- By 2030 the Fund will divest from all developed market equity holdings in high impact sectors¹ that are not achieving net zero or aligning to achieve net zero by 2050.
- The Fund will reduce the carbon intensity of its listed equity portfolios by 43% and 69% by 2025 and 2030 respectively (versus 2019 baseline).
- By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (versus 2019 baseline).
- 70% of financed emissions in material sectors are covered by active engagement by the end of 2024 and 90% by 2027².

5.7 Within the equity allocation, 50% is managed actively, and 50% passively. This is consistent with APF's risk/return and climate change objectives and serves to reduce the aggregate annual fee paid to investment managers.

5.8 Hedging is an integral part of the investment strategy to mitigate unrewarded risks (such as foreign exchange hedging) and to increase liability / cash flow matching (interest rate and inflation hedging).

5.9 The long-term asset allocation along with an overview of the role each asset plays, is set out in Appendix 1.

6. Suitability of Investments

6.1 Private markets allocations exploit alternative sources of return and generate more income to improve cash flow to provide greater stability in contribution rates. Secure Income and some infrastructure assets benefit directly from contractual, inflation-linked income with fixed uplifts, which make them an ideal tool for cash flow management purposes.

6.2 Climate change scenario modelling indicates that allocating to sustainable and transitioned aligned equities can capture a low carbon transition 'premium' under various climate change scenarios and displays no materially greater level of downside risk versus broader equity allocations.

6.3 APF believes that low carbon and transition aligned strategies that significantly reduce financial exposure to fossil fuel reserves and carbon emissions across all companies, combined with robust engagement with companies regarding their climate strategies, is currently the most effective approach to meeting APF's climate objectives as well as maximising real world impact.

6.4 The portfolios offered by Brunel will typically consist of a number of underlying managers that will have complementary investment styles and approaches to investing. This results in highly diverse portfolios, carefully structured to manage stock specific risk as well as underlying manager, investment style and other financial risks.

¹ Currently in scope are listed companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with the Transition pathway Initiative sectors; alignment assessment based on IIGCC NZIF framework

² Applied across all Brunel listed equity portfolios

6.5 Currently Brunel directly manages 68% of APF’s assets across its Equity portfolios, Multi Asset Credit Portfolio, Diversified Returns Portfolio, UK Property and a range of private markets portfolios. A further 20% of assets relating to APF’s risk management strategies are governed by Brunel legal agreements.

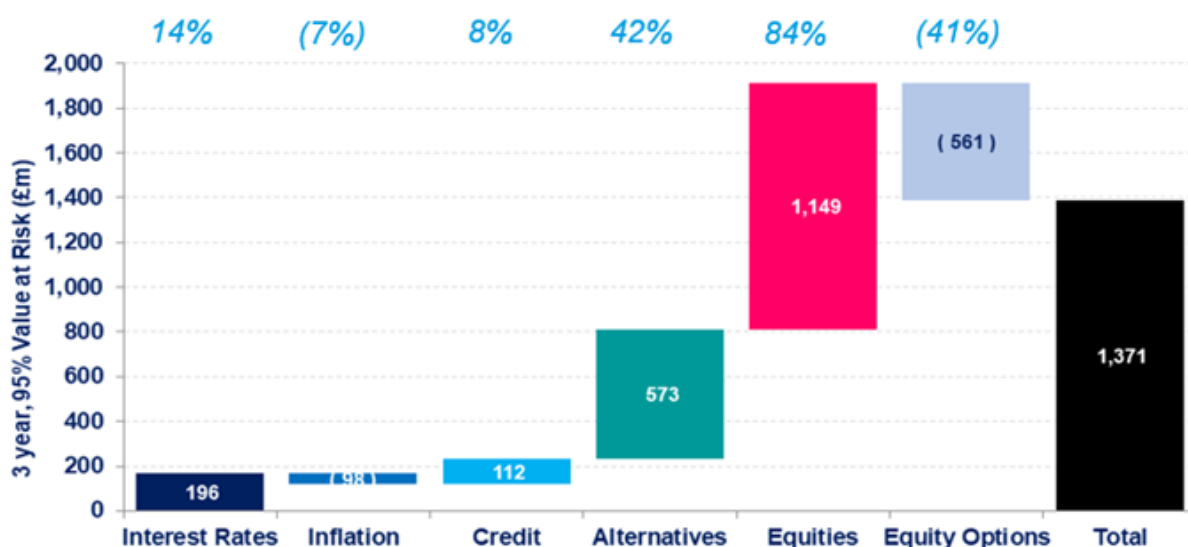
6.6 Consideration of each asset class or investment approach includes modelling of risk adjusted return expectations and an assessment of the extent to which the investment manager’s approach is consistent with APF’s Responsible Investment principles including an assessment of the Environmental, Social and Governance (ESG) risks and opportunities identified for each asset class. Product structure and management costs will also be a factor.

6.7 Details of the current investment management structure can be found in Appendix 2.

7. Risk Measurement and Management

7.1 The primary risk to APF is that its assets are insufficient to meet its liabilities, as determined by the Funding Strategy Statement. The main risk to the employers is the volatility of the contribution rates and affordability.

7.2 The graph below provides an indication of the main sources of investment risk to the funding position, as measured using three-year Value-at-Risk (VaR) based on the funding position and asset allocation as at 31 December 2023. This estimates how much the funding deficit could increase over a three-year period with a 1-in-20 probability.



Source: Mercer

7.3 The graph shows that if a 1-in-20 downside event occurred, in three years’ time the deficit would be expected to increase by at least an additional £1,371m on top of the expected deficit at that time.

7.4 Equities remain the largest source of risk. APF's equity protection strategy (discussed later in this section) reduces the three-year VaR number by approximately 9% (estimated by Mercer).

7.5 Evaluation of risks that may impact the investment strategy and expected future returns is crucial in determining the appropriate measures to mitigate those risks. The principal risks affecting APF and the actions to mitigate those risks are set out below.

Financial Risks	Management / Control
<p>Investment Risk - Assets do not deliver the return required to meet the cost of benefits payable by APF; potential drivers:</p> <ul style="list-style-type: none"> • Investment market performance/volatility • Manager underperformance • The actual return generated fails to meet APF's discount rate, due to inflation increasing more than expected or assets failing to deliver as expected 	<ul style="list-style-type: none"> • Diversification - A diverse range of asset classes and approaches to investing designed to achieve returns in a variety of market environments. By holding a range of assets that are not overly concentrated in any one area, APF expects to reduce the level of risk it is exposed to, whilst increasing the potential to generate attractive risk-adjusted returns. • Scenario testing - used in strategic investment reviews to set strategic benchmarks. Allocation 'ranges' enable tactical positions to be implemented to reflect shorter-term market outlook. • Regular monitoring of manager performance - Each manager is monitored against a three-year performance target designed to highlight any inappropriate risk-taking behaviour and address factors that may impact the ability of that manager to achieve their performance target. A number of risk metrics are monitored at the portfolio level including tracking error and active risk positions. • Mitigates inflation risk by implementing a diversified investment strategy, through the alignment of the investment strategy with funding requirements through regular reviews and monitoring. At APF level Value at Risk and correlation between asset returns are monitored. Management of strategic risks such as inflation and equity market volatility are addressed through a dedicated risk management framework. See Section 7 for further information.
<p>Asset Risk -</p> <ul style="list-style-type: none"> • Liquidity risk: The inherent risk of holding illiquid/less liquid assets that cannot be easily converted into cash • Exchange Rate risk: Foreign currency exposure is expected to be an unrewarded risk over the longer term 	<ul style="list-style-type: none"> • Investing across a range of liquid assets recognises the need for access to liquidity in the short term. A tactical liquidity strategy that seeks to replicate APF's strategic benchmark offers immediate access to cash to negate the risk of selling assets when it might be inopportune to do so • Liquidity budgeting informs how much APF can reasonably afford to invest in illiquid holdings in order to benefit from the 'illiquidity premium', without compromising future outgo requirements. • Foreign exchange hedging protects the sterling value of overseas investments and serves to reduce the volatility that arises from movements in exchange rates. The programme consists of a 50% passive hedge of the US Dollar, Yen and Euro currency exposure of the developed equity holdings and a 100% hedge of currency risk for infrastructure, global property and hedge fund investments. In periods of

<ul style="list-style-type: none"> • Collateral management risk: Collateral is required to support the risk management strategy and protects all parties to a transaction from the risk of default 	<p>sterling weakness the investment return will be lower than if the assets were unhedged.</p> <ul style="list-style-type: none"> • A robust and pro-active collateral monitoring process with prescribed minimum thresholds protect APF from becoming a forced seller of assets in the event a large adverse move in market prices triggers a collateral call
<p>Responsible Investment:</p> <ul style="list-style-type: none"> • Environmental, Social & Governance (ESG) issues may have a material financial impact if not given due consideration • Climate change risk 	<ul style="list-style-type: none"> • Actively addresses ESG risks throughout its investment strategy • Considers ESG risks as part of Strategic Investment Reviews • Quantifies the risk climate change presents to Fund assets and seeks to reduce this risk by allocating capital accordingly <p>Details of APF's approach to managing ESG risks are set out in Section 8 of this document.</p>
<p>Longevity Risk - the risk Members of APF live longer than assumed in the actuarial valuation model</p>	<ul style="list-style-type: none"> • Captured within the funding strategy which is monitored by the Committee on at least a three-yearly cycle. Any improvement or deterioration in longevity will only be realised over the long term
<p>Employer Covenant Risk - Employers within APF lack the financial capacity to make good their outstanding liabilities</p>	<ul style="list-style-type: none"> • Addressed through a covenant assessment monitoring process, which annually assess the financial standing of all Employers in APF and the analysis is considered when setting the Funding Strategy • A lower risk investment strategy is adopted for certain admission bodies and orphan liabilities where there is no guarantee underpinning the liabilities
<p>Operational/Other Risks</p>	<p>Management / Control</p>
<p>Investment Pooling -</p> <ul style="list-style-type: none"> • Expected benefits and cost savings do not emerge over the long-term 	<ul style="list-style-type: none"> • The Service Agreement sets out the duties and responsibilities of the Pool and the rights of APF as a client • A robust governance framework with agreed constitution and terms of reference ensures the objectives of pooling are met • Ongoing monitoring of performance, service delivery, costs and savings arising from pooling <p>Details of APF's Pooling arrangement are set out in Section 2 of this document.</p>
<p>Regulatory and Political Risk - The potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those markets subject to political uncertainty</p>	<ul style="list-style-type: none"> • Ongoing horizon scanning and consideration on APF Risk Register • Review and response to consultations on changes to the LGPS regulations and guidance which may impact scheme funding or investment strategy • Ongoing review of the investment strategy and specific investment portfolios
<p>Governance Risk - Committee Members do not have sufficient expertise to evaluate and challenge the</p>	<ul style="list-style-type: none"> • Periodic Member self-assessment

advice they receive. Committee members are to possess an appropriate level of knowledge, skill and understanding to discharge their fiduciary duty	<ul style="list-style-type: none"> • Training policy in place based on Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds • Expert advice commissioned to support strategic and implementation decisions
Cash Flow Risk - Payments to pensioner members exceed contributions	<ul style="list-style-type: none"> • Investment strategy structured to generate investment income to help manage negative cash flow profile • Monitoring cash flow critical to the internal monitoring and rebalancing process and is an important consideration when setting investment strategy
Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded	<ul style="list-style-type: none"> • Use of global custodian with negotiated service level agreement and internal reconciliation of accounting records
Counterparty risk - The possibility of default of a counterparty in meeting its obligations	<ul style="list-style-type: none"> • Counterparty exposure restrictions as relates to the risk management framework and treasury management policy • Internal controls reporting and compliance monitoring

Risk Management Strategy

7.6 The Risk Management Framework (RMF) encompasses three bespoke risk management strategies and assets held for collateral management purposes. The Liability Driven Investment (LDI) Strategy and the 'Lower Risk' strategy (which includes a Buy-and-Maintain Corporate Bond Portfolio) are designed to hedge interest rate and inflation risks arising from the liabilities, whereas the Equity Protection Strategy (EPS) protects APF from a large drawdown in the value of its equity investments. These strategies are linked to the funding strategy and de-risk APF by placing less reliance on growth assets to fund future pension benefits and to simultaneously protect the funding position.

7.7 The strategies are reviewed annually to assess whether a material change in market conditions requires an adjustment to any of the strategies to ensure they still meet the strategic objectives. This review also considers the ongoing collateral requirements. Operational aspects as they relate to the RMF (e.g., routine monitoring of collateral, performance and counterparties and implementation of any strategic changes) are delegated to the Funding and Risk Management Group. The Investment Panel receives a quarterly status update on the RMF where any concerns are flagged. Strategic changes to the RMF are required to be approved by Committee.

Liability Driven Investment Strategy (LDI)

7.8 APF is not in a position to reduce its exposure to higher return growth assets (e.g. equities) and use the proceeds to purchase lower return, 'liability matching' assets (e.g. Index-Linked Gilts), as the expected future return on the assets held would fall short of the assumptions built into the funding plan. The LDI strategy, therefore, allows APF to retain its allocation to growth assets and simultaneously increase its exposure to 'matching'

assets by using a range of financial instruments that employ leverage, either directly through borrowing or implicitly through the use of derivatives.

7.9 In order to meet the assumed investment return in the funding strategy, the LDI strategy uses a framework where exposure to 'matching' assets is only increased when they pay a sufficiently high yield to meet APF's requirements. APF operates a trigger framework for interest rates and inflation rates.

Lower Risk Investment Strategy

7.10 The liabilities relating to this strategy are valued using the discount rate linked to the yields on the corporate bonds held within the portfolio. The strategy benefits from the inflation hedging undertaken within the LDI portfolio, resulting in greater stability of any funding deficit and therefore contributions for employers.

Equity Protection Strategy (EPS)

7.11 The EPS is underpinned by the funding level and protects against significant falls in developed equity markets. The EPS is structured to evolve with market conditions over time which serves to dampen volatility and minimise risk. In order to finance the downside protection, APF participates in equity market gains up to a predetermined level or 'cap', beyond which gains are foregone. The 'cap' is set at a level that optimises the risk/return pay-off of the strategy and in a way that does not compromise the assumed investment return in the funding strategy.

7.12 The Equity Protection hedge ratio is 50% (of developed market equities). Compared to a 100% hedge this helps mitigate the drag on equity returns, reduce costs, improve the collateral position overall and retains sufficient downside protection.

Role of Collateral in Risk Management Framework

7.13 The risk management strategies are held in a Qualified Alternative Investor Fund (QAIF), bespoke to APF, enabling collateral management to be delegated to the investment manager. The LDI and EPS both use derivative instruments that require collateral (often in the form of cash) to be posted on a daily basis. This protects all parties to a transaction against the risk that one defaults and is unable to fulfil the terms of the financial contract.

7.14 Collateral adequacy is managed in line with guidance from The Pensions Regulator and the Central Bank of Ireland, the regulator of the QAIF vehicle in which the risk management strategies reside. Predetermined notification points allow the Fund time to source collateral from elsewhere in the investments portfolio should the need arise.

Risk Management Strategy under Pooling

7.15 APF retains responsibility for strategic and operational aspects attached to its risk management strategies and seeks advice from its investment advisors on the suitability of the risk management strategies. The pooling arrangement allows APF to determine a bespoke strategy for LDI, EPS and

the low-risk investment portfolio to meet its risk management objectives. Brunel does not advise on the suitability of investments made for the express purposes of efficient portfolio risk management.

7.16 Brunel contracts with the investment manager to set out the basis on which the manager will offer its services to client funds within the pool. This enables Brunel to access information so they can monitor the manager and delivery of services to clients. Clients also benefit from increased economies of scale and negotiated fee structures arising from the Brunel agreement.

8. Responsible Investment (RI)

RI Principles

8.1 APF invests in line with its Responsible Investing (RI) principles where it defines RI as the integration of Environmental, Social and Corporate Governance (ESG) issues into its investment processes and ownership practices in the belief this can positively impact financial performance. These principles support the wider investment strategy and seeks to understand and manage ESG and reputational risks to which APF is exposed.

8.2 APF's approach to Responsible investing is based on the following principles:

- As a long-term investor it seeks to deliver long-term sustainable returns
- Management of ESG risks is consistent with APF's fiduciary duty to members
- That Climate Change poses an existential threat to long-term investments as well as to the planet
- We believe in investing responsibly to make a real world impact
- There is increasing convergence between financial returns and climate aware investments
- Working with like-minded investors to collectively engage companies and policymakers can drive positive change
- APF has a duty to exercise its stewardship responsibilities as an owner
- APF aims to be transparent and accountable

8.3 APF's approach is to integrate RI across its investment decision-making process for the entire portfolio. When setting the investment strategy and objectives the analysis includes the impact of ESG issues on each asset class, the materiality of ESG risks within those asset classes and whether there are any strategic ESG-related opportunities that would generate value.

8.4 APF does not have a blanket exclusion policy to divest from specific assets or sectors but manages such risks by analysing ESG factors identified as potentially financially material in its strategic reviews. APF expects its managers to engage with company management on ESG issues they have identified as being a risk to the investment case; it is APF's belief that engagement and responsible stewardship will influence corporate behaviour more effectively than divestment. Managers are required to

report to APF on their engagement activities and other ESG initiatives regularly.

- 8.5 However by 2030 the Fund will divest from all developed market equity holdings in high impact sectors that are not achieving net zero or aligning to achieve net zero by 2050. High impact companies held in the portfolios will be monitored annually and divested before 2030 if they fail to demonstrate alignment.
- 8.6 APF will consider non-financial factors alongside financial considerations provided that doing so will not involve significant risk of financial detriment to APF and where it can reasonably conclude that members would support the decision.

Climate Change

- 8.7 APF recognises that Climate change presents an immediate systemic and material financial risk to APF, as well as society more broadly. It is a strategic investment priority for APF and as well as developing proprietary climate change objectives, APF has supported Brunel in the development of its comprehensive and market leading Climate Change Policy, which sets out how they manage these risks across all of their activities. The full policy is available [here](#).
- 8.8 In addition to the climate targets set out in Section 5, APF endorses and supports collaborative engagement and climate policy advocacy work through membership of various industry leading climate advocacy bodies to drive positive change.
- 8.9 APF uses its power as a shareholder to encourage corporate change. Financial markets and companies urgently need to adapt their activities to support the transition to a low carbon economy. Collaboration as part of Brunel Pension Partnership makes our influence more powerful as they manage a £30bn pool of assets. In addition, APF independently supports investor led initiatives such as ClimateAction100+ and Institutional Investors Group on Climate Change to increase pressure on companies and governments to align with the Paris goals.
- 8.10 APF monitors and discloses its carbon exposure annually to inform strategic decisions relating to climate change and to chart its progress towards its long-term climate change objectives.

RI and Pooling

- 8.11 The scale and resources arising from pooling enables improved implementation of responsible investment and stewardship across all APF's assets. Brunel's Investment Principles clearly articulate its commitment and that of each client in the pool, to be responsible investors and as such recognises that ESG considerations are an integral part of portfolio construction, the selection, non-selection, retention and realisation of assets. Every Brunel portfolio explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio

objectives. The approach undertaken will vary to be the most effective in mitigating risks and enhancing shareholder value in relation to each portfolio and its objectives.

- 8.12 Brunel is tasked with the development of investment portfolios and the appointment of managers for the portfolios that are consistent with and accommodate APF's wider RI objectives and long-term asset allocation decisions. Proprietary Brunel policies covering ESG factors such as climate change, voting and stewardship have been developed in conjunction with its clients to ensure the needs of the respective client funds are adequately met in respect of RI. APF monitors the portfolios managed by Brunel to ensure they continue to deliver against strategy.
- 8.13 Under its policy framework Brunel publishes position statements, engagement plans, voting records and an Annual Responsible Investment and Outcomes Report. More information can be found on the Brunel website here: <https://www.brunelpensionpartnership.org/responsible-investment/>

Policy of the exercise of rights (including voting rights)

- 8.14 APF supports and applies the FRC UK Stewardship Code 2020 (the Code) definition of stewardship: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society".
- 8.15 APF believes that voting is an integral part of the RI and stewardship process. Under the current arrangements voting is delegated to Brunel and its agents as all the equity assets are invested in Brunel's portfolios. APF monitors how Brunel and its agents undertake voting and engagement activities in comparison to relevant codes of practice. Where practicable, they are required to vote in all markets and vote at all company meetings on behalf of APF.
- 8.16 Brunel has a single voting policy for all assets under its management held in segregated accounts. In addition, Brunel will actively attend and vote at company meetings (AGM/ EGMs). Brunel has the right to recall stock that has been lent out in its portfolios to enable voting.
- 8.17 Brunel's voting and engagement service provider, Federated Hermes EOS, enables APF to gain access to specialist expertise and participate in a broad range of engagement themes.
- 8.18 Brunel will publish its voting policy and provide online voting records no less than twice a year.
- 8.19 APF recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes. In this respect, APF is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that focuses on corporate governance issues, and the promotion of high standards of corporate governance and responsibility.
- 8.20 APF publishes a Responsible Investment Report annually which includes analysis of the voting and engagement activity across the portfolios.

Social/Local Investments

Investments that deliver social impact as well as a financial return are often described as “social investments” which cover a wide spectrum of investment opportunities. APF applies risk and return criteria consistently when evaluating all investment opportunities including those that address societal challenges as well as generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy. APF allocates 3% of assets to a Local/Social Impact portfolio and the portfolio will vest gradually over a number of years as opportunities arise.

Avon Pension Fund

March 2024

Appendix 1 – Strategic Asset Allocation

Asset Class	Target %	Permitted Range	Role within Strategy
Equity Portfolio	41.5%	36.5-46.5%	
Global Equity	10.5%	5.5-15.5%	Possess characteristics e.g., highly developed capital markets, high liquidity, bond 'proxies' / income seeking, large and small market capitalisation. Given the globalisation of sectors and companies, the strategic policy is to allocate to global markets. As a result there is not a specific allocation to UK equities or other regional markets
Global Sustainable Equity	10.5%	5.5-15.5%	Seeks to maximise exposure to positive pursuit companies which provide solutions to sustainability whilst maintaining financial return. Sustainable equity portfolios comprise long-term forward-looking investment approaches which integrate ESG metrics throughout the investment process and for this reason comply with APF's climate change objectives and wider RI principles
Paris Aligned Global Equities	20.5%	12.5-28.5%	Provides exposure to global equity returns with lower exposure to carbon emissions and fossil fuels, while still low cost and liquid, and aligning to the Paris Agreement. This portfolio seeks to mitigate climate risk by investing in accordance with a Paris Aligned Benchmark approach which, compared to its market cap equivalent, aims to: <ul style="list-style-type: none"> • Reduce exposure to carbon reserves and operational emissions by a minimum of 50% and a further 7% year on year from 2020 • 100% Increase Green revenue exposures • Increase exposure to companies with good climate governance (those companies with a plan to align to the Paris Agreement) • Increase exposure to companies that are demonstrating their ability to be Paris aligned
Liquid Growth Assets	12.0%	7.0-17.0%	
Diversified Return Funds	6.0%	3.0-9.0%	Builds exposure to alternative sources of return including dynamic tactical allocation and alternative risk premia derived from factors such as value, momentum, size and quality. Provides a degree of downside protection from equity risk by actively adjusting equity market beta

Multi Asset Credit	6.0%	3.0-9.0%	Provides exposure to a diversified range of credit opportunities such as high yield, leveraged and emerging market debt with limited exposure to interest rate risk
Illiquid Growth & Income Assets	32.5%	n/a	
Core Property	7.0%		Provides diversification within the Growth portfolio. Includes both UK and overseas real estate as well as private markets exposure where returns are less correlated with listed markets, and where APF is expected to receive a higher return. Property is expected to provide a hedge against inflation in the medium- to long-term
Secured Income	9.0%		Backed by long maturity assets, Secured Income assets include long lease property, operational infrastructure assets and residential housing. These assets generate contractually secure income streams that provide greater stability of returns, explicit inflation linkage and generate cash flows over time
Core Infrastructure	4.0%		Investments in UK and global infrastructure assets seek to invest in assets with strong market positions, predictable regulatory environments and high barriers to entry. Infrastructure is expected to provide a hedge against inflation in the medium to longer term. Some development risk will be considered
Renewable Infrastructure	5.0%		Provides a source of contractual income from an opportunity set that benefits from the drive toward alternative energy sources. Displays lower levels of correlation with traditional assets than other infrastructure sub-sectors. Allocation consistent with APF's climate change objectives
Private Debt	4.5%		Provides a source of contractual income with minimal interest rate sensitivity, high return potential through active management and diversification away from listed public market performance. Credit risk is managed via a well-diversified portfolio with a high number of individual credits
Local /Social Impact	3.0%		Provides an impact in the local /regional area or within a social sector of the economy. Expect portfolio to achieve the overall return target of APF. Return and Risk within the portfolio will vary between the sub assets classes.
Protection Strategies	14.0%	n/a	
Corporate Bonds	2.0%		Expected to generate returns commensurate with credit risk. Held to broadly match a specific portion of the liabilities

LDI	12.0%		A risk reduction tool designed to provide more certainty of real investment returns vs inflation with the ultimate aim of stabilising employer contribution rates. The primary 'matching' instruments used in this strategy include physical instruments such as fixed interest and index-linked Government bonds (financed through "repurchase" agreements) and derivative instruments such as interest-rate and inflation swaps
Equity Protection	Overlay on 50% of equity portfolio		Protects against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability in employer deficit contributions in the event of a significant equity market fall
Currency Hedging	Overlay on 50% overseas equities and 100% of alternatives		Currency hedging is employed on assets that are traded in overseas markets, in order to reduce the risk of adverse currency movements eroding returns. Asset classes where a significant portion of the return is linked to currency (e.g. emerging markets) are not hedged
Cash	0.0%	0.0-5.0%	Cash is exposed to credit risk and is generally a very low yielding asset. APF aims to be fully invested where possible. To efficiently manage cash APF uses a combination of money market funds with daily liquidity and a basket of highly liquid ETFs that are structured to replicate the return of APF's benchmark asset allocation
Total	100%		

Appendix 2 – Investment Portfolio Structure as at 31 December 2023

Manager	Mandate	Passive / Active	Performance Objective	% of Fund	Inception Date
Brunel Pension Partnership	Paris Aligned Global Equities	Passive	FTSE Developed World PAB Index	7.5%	Nov 21
Brunel Pension Partnership	Global Sustainable Equities	Active	MSCI ACWI +2% p.a.	10.7%	Sep-20
Brunel Pension Partnership	Global Equities	Active	MSCI World +2-3% p.a.	11.5%	Dec-19
Brunel Pension Partnership	Secured Income	Active	CPI+2% p.a.	10.1%	Apr-18
Brunel Pension Partnership	Renewable Infrastructure	Active	CPI+4% p.a.	3.5%	Apr-18
Brunel Pension Partnership	Diversified Returns Fund	Active	GBP SONIA +3-5% p.a.	6.3%	Jul-20
Brunel Pension Partnership	Multi Asset Credit	Active	GBP SONIA +4-5% p.a.	5.7%	Jun-21
Brunel Pension Partnership	UK Property Portfolio	Active	MSCI/AREF UK Q'ty Property Fund Index +0.5% p.a.	3.2%	Jan-21
Brunel Pension Partnership	Private Debt	Active	GBP SONIA+4% p.a.	3.6%	May-20
BlackRock	Corporate Bonds	Bespoke	In line with customised benchmark	3.2%	Apr-19
BlackRock	Liability Driven Investments & Equity Protection Strategy	Bespoke	In line with customised benchmark	22.9%	Jul-17
BlackRock	Paris Aligned Global Equities	Passive	MSCI PAB Index	17.7%	Nov-17
BlackRock	Liquidity Management Strategy	Passive	In line with customised benchmark	0.4%	Feb-19
JP Morgan Asset Management	Fund of Hedge Funds	Active	Higher of Cash+3%, or 6% p.a.	0.4%	Jul-15
Schroders Investment Management	UK Property	Active	IPD UK Pooled Property Fund Index +1% p.a.	0.0%	Feb-09
Partners Group	Overseas Property	Active	IPD Global Property Index +2% p.a.	2.2%	Sep-09
IFM	Infrastructure	Active	10% p.a. over the long-term	4.1%	Sep-14
Record Currency Management	Currency hedge (equity exposure)	Passive	N/A	1.3%	Jul-11
Local Impact (Multi manager)	Local Impact – multi asset	Active	6-8% p.a. over 10+ years, net of fees	--	Jan-24
Cash (Internal) Synthetic Equity Offset³	Cash n/a	Passive n/a	N/A n/a	1.9% -16.6%	N/A n/a

Totals may not sum due to rounding

³ BlackRock Paris aligned is synthetic exposure via the BlackRock QAIF; Synthetic Equity Offset reflects an offsetting value to account for the difference between the exposure to equity markets and the actual mark-to-market value of the holding.

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	22 MARCH 2024
TITLE:	BRUNEL POLICY POSITION: ACTIVITY-BASED EXCLUSIONS
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Brunel Activity-based Exclusions Analysis	

1 THE ISSUE

- 1.1 As a continuation of their work on the climate agenda, and ESG more broadly, Brunel propose the adoption and limited use of activity-based exclusions, which can act as a mechanism that enables efficiencies to be gained, allowing time and resources to be deployed on more complex areas of the climate transition.
- 1.2 The proposal does not change Brunel’s approach to engagement over divestment, as engagement will be of limited effectiveness in the industries set out as part of the proposal.
- 1.3 The proposed exclusionary criteria are set in reference to industry-standard criteria, with implications for very specific parts of the energy, tobacco and defence sectors.
- 1.4 The purpose of this paper is to invite discussion from Committee members on whether they deem the limited use of activity-based exclusions to be consistent with the Fund’s overarching approach to responsible investment. Committee views will then be fed back to Brunel who will update their policy position based on the consensus views of all underlying client funds.
- 1.5 The Committee can take a position where they support all, some, or none of the proposed criteria.

2 RECOMMENDATIONS

The Avon Pension Fund Committee is asked to:

- 2.1 **Support Brunel’s limited use of activity-based exclusions as set out in Exempt Appendix 1.**

3 FINANCIAL IMPLICATIONS

- 3.1 There are no immediate financial implications arising from this discussion.

4 ACTIVITY BASED EXCLUSIONS

- 4.1 Exempt Appendix 1 shows the impact the application of exclusions will have on the actively managed Brunel listed equity and corporate bond portfolios as well as the impact on the investable universe.
- 4.2 The exclusions are intentionally targeted at companies with activities that have no, or very limited, capacity to transition or pivot to alternative industries. The threshold for exclusion across the specified sectors has been set sufficiently high to ensure diversified companies e.g. integrated energy companies and diversified aerospace and defence companies are not captured. Companies in these sectors remain in scope for investment and will continue to play a pivotal role in delivering the Fund's fiduciary duty.
- 4.3 Critically, the proposed changes have minimal impact on the Fund's current holdings, with only one small position representing less than 0.1% of total Fund assets affected. Furthermore, the proposed exclusions are largely consistent with those applied by the passive Paris-aligned equity strategy, which the Fund has a 20.5% strategic allocation to.
- 4.4 The potential benefits of employing a limited number of activity-based exclusions that can streamline the investment process allows Brunel to focus on positive capital allocation and engagement as its primary levers to encourage companies to decarbonise and enhance resilience, which will ultimately help the Fund deliver its own responsible investing priorities.

5 RISK MANAGEMENT

- 5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

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 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 Paris Aligned Global Equities, Sustainable 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 Director of One West & APF has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager 01225 395357
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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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Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1751700
Meeting / Decision: Avon Pension Fund Committee
Date: 22 nd March 2024
Author: Nathan Rollinson
Report Title: Brunel Policy Position: Activity-Based Exclusions List of attachments to this report: Exempt Appendix 1 – Brunel Activity-based Exclusions Analysis

The exempt appendix above 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.

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 appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could 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.

Document is Restricted

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Agenda Item 15

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	22 March 2024	AGENDA ITEM NUMBER 15
TITLE:	OVER & UNDER PAYMENTS POLICY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Over & Under Payments Policy		

1 THE ISSUE

1.1 The Fund has identified the need to put in place a clear policy to establish the principles of rectification for members where there has been either an overpayment or underpayment of pension benefits.

1.2 The policy is attached to this report for approval.

2 RECOMMENDATIONS

The Committee:

2.1 Approves the Over & Under Payments Policy

3 FINANCIAL IMPLICATIONS

3.1 There are no particular financial considerations. The impact of any overpayments that are written off as part of the policy will be considered as part of the valuation process.

4 THE REPORT

4.1 Underpayments and Overpayments of benefits can arise due to various reasons. Eg:

- Control errors such as Pensions Increase not being applied or where short term spouses pensions are not reduced.
- Employers providing incorrect data used to put benefits into payments
- No or late notification of the death of a member or dependant
- Rectification projects such as GMP and McCloud

4.2 Member benefits are explicitly outlined in the Local Government Pension Scheme (LGPS) Regulations and other relevant legislation, and it is impermissible under law for members to receive amounts other than those stipulated by these rules. However, it is crucial for the Fund to establish a clear policy for managing over and underpayments once identified.

4.3 The Fund acknowledges the importance of adopting a proactive approach to identify fraudulent activities, rectify overpayments, and pursue recovery where necessary. This commitment extends to maintaining effective processes that

minimise the risk of over and underpayments, swiftly identifying such cases, and resolving them promptly in the interest of all affected parties.

4.4 The Fund has worked with Consultants, Aon, to produce the policy. The principles set out in the policy aim to treat all members fairly with a consistent approach to each scenario, whilst giving the Fund discretion to consider individual circumstances.

4.5 In summary the policy sets out a framework to manage overpayments taking into account:

- How long after the overpayment first occurred that it was discovered;
- Whether the member could reasonably have been aware that they were being or had been overpaid;
- Whether the member died before the overpayment was discovered;
- The size of the aggregate amount of the overpayment;
- The cost of recovering the overpayment;
- Whether the overpayment was the result of a criminal act;
- Whether the recovery of the overpayment would impose "material hardship" on the member.

4.6 Where an underpayment of pension or lump sum is identified, the following action will be taken:

- pension will be immediately increased to the correct level. The member will receive written notification of the underpayment if the total underpaid amount exceeds £5.
- The underpayment will be reimbursed to the member in one lump sum payment which is paid through the pensions payroll with the next monthly pension payment.
- Interest will be paid on the underpaid amount(s) in line with Regulation 81 of the LGPS Regulations.

4.7 Decisions on the application of the policy in specific cases will be by a panel of officers including Head of Pensions and Pensions Operations Manager.

4.8 Authorisation of write offs will be as set out in section 10 of the policy. The Fund's Scheme of Delegation will be amended to reflect these limits.

4.9 Over and underpayments of benefits will be recorded as a breach of the law in the Fund's breaches register. Such breaches will, in accordance with the Pensions Regulator guidance and the Fund's Procedure for Reporting Breaches of the Law, be reported to the Pensions Regulator where considered of material significance.

4.10 Once approved this policy will be used to assess and rectify cases identified going forward, but will not be used retrospectively.

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

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 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 Paris Aligned Global Equities, Sustainable 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 Director of One West & APF has had the opportunity to input to this report and has 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	

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AVON PENSION FUND

Policy on the Overpayment and Underpayment of Pension Scheme Benefits and Contributions

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1. Introduction

This is the Overpayment and Underpayment of Pension Scheme Benefits and Contributions Policy for the Avon Pension Fund ('the Fund'), which is managed by Bath and North East Somerset Council ('the Administering Authority').

Underpayments and Overpayments of benefits can arise due to various reasons. Member benefits are explicitly outlined in the Local Government Pension Scheme (LGPS) Regulations and other relevant legislation, and it is impermissible under law for members to receive amounts other than those stipulated by these rules. However, it is crucial for the Fund to establish a clear policy for managing over and underpayments once identified.

Bath and North East Somerset Council acknowledges the importance of adopting a proactive approach to identify fraudulent activities, rectify overpayments, and pursue recovery where necessary. This commitment extends to maintaining effective processes that minimise the risk of over and underpayments, swiftly identifying such cases, and resolving them promptly in the interest of all affected parties.

2. Scope

The policy applies to:

- All members and former members of the Avon Pension Fund, and their dependants, councillor members and pension credit members.
- Executors of the Estate and personal representatives of deceased Avon Pension Fund members/dependants.
- Any person who has a right to make an application under the LGPS internal disputes resolution policy under regulation 74 of the LGPS Regulations 2013;
- Administrators of the scheme;
- Employers participating in the scheme; and

This policy does not give, nor shall it be deemed to give, any rights, whether contractual or legally enforceable or otherwise to any member of the Fund, or to any other person whatsoever. Nothing in this document will cause the Administering Authority's capacity to exercise its discretionary powers to be unlawfully fettered or restricted in any way.

The Administering Authority has several other discretionary policies in place, and the details set out in this policy are consistent with the approaches set out in those discretionary policies. The Administering Authority reserves the right to apply discretion in any under or overpayment scenario.

3. Regulations

This policy is formulated under the Local Government Pension Scheme Regulations 2013 (as amended) - "LGPS Regulations" and related legislation.

The Fund will also implement this policy in line with the provisions of the various other LGPS Regulations and other legislation, including but not limited to:

- Registered Pension Scheme (Authorised Payments) Regulations 2009

- The Limitation Act 1980
- The Pensions Act 1995
- The Finance Act 2004
- The principles of Law of Equity including the doctrine of equitable recoupment

Nothing within this policy can overwrite the legal requirements within those provisions.

4. Purpose of the policy

The roles and responsibilities of the Administering Authority and the quality and performance standards expected of the Fund are set out in the Pension Administration Strategy. The Fund's administration and communications objectives are:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in the Service Level Agreement);
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance;
- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other partners;
- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner;
- The Fund and scheme employers have appropriate skills, and that guidance/training is in place to deliver a high-quality service and effectively contribute to the changing pensions agenda;
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in the Service Level Agreement;
- Administrative services are developed and delivered digitally as outlined in the ICT Strategy, in order to streamline processes and maximise efficient use of resources.

Having a policy setting out what approach will be taken when a member has been underpaid or overpaid compared to the benefits due under the LGPS Regulations, or where an employer and/ or member has underpaid the contributions required to meet the cost of the members' benefits is integral to the Administering Authority achieving these objectives.

The purpose of this policy is to ensure that the relevant objectives as set out above are met, and the administration of the Fund is carried out in line with the governance objectives of the Fund. In particular, it aims to:

- Ensure a consistent approach to the treatment of overpaid/underpaid members, their dependants, or personal representatives, ensuring that all identified affected members are treated in a fair and equitable manner to the extent possible;
- Ensure that all necessary steps are taken to rectify overpayments in cooperation with the individuals or their personal representatives and to recover overpaid pensions when they occur;
- the Fund attempts to reimburse members or their beneficiaries where underpayments have occurred; and

- Ensure the Fund has processes in place to prevent and mitigate potential fraudulent activity.

More specifically, this policy aims to ensure that:

- The correct amount of benefits are paid to the right people at the right time;
- The Fund maintains accurate records and ensures data is protected and has authorised use only;
- Errors are identified as soon as possible;
- Overpayments are recovered with the cooperation of the individual but acknowledging that there may be legal reasons and/or other circumstances which mean that an overpayment may not, in practice, be able to be recovered (in whole or in part);
- Underpayments are reimbursed with the cooperation of the individual;
- Individuals understand the importance of checking their payslips/payments for any reasonably identifiable errors; and
- Minimise the necessity of resorting to the Internal Dispute Resolution Procedure (IDRP) by effectively managing the identification, rectification and repayment processes.

This document is designed to provide the Fund with practical guidance rather than a rigid framework, providing flexibility for the Fund to consider alternative courses of action when circumstances warrant.

5. Managing overpayments of pensions and lump sums

Under Regulation 14 of the Registered Pension Scheme (Authorised Payments) Regulations 2009 the Fund is obliged to correct any overpayment they discover within a reasonable period of time, in order to avoid tax consequences. The Pensions Regulator recognises that there is a legal obligation for pension fund managers to have in place appropriate controls to ensure the scheme is managed in accordance with the scheme regulations. In practice, that means we must ensure the correct benefits are paid and where that is not the case, that we need to recover any past overpayments as well as correcting the benefit payments for the future.

There are circumstances in which an overpayment may not be recovered from the member and may be written off by the Administering Authority. Factors taken into account to consider recovery include:

- How long after the overpayment first occurred that it was discovered;
- Whether the member could reasonably have been aware that they were being or had been overpaid;
- Whether the member died before the overpayment was discovered;
- The size of the aggregate amount of the overpayment;
- The cost of recovering the overpayment;
- Whether the overpayment was the result of a criminal act;
- Whether the recovery of the overpayment would impose "material hardship" on the member and the extent to which this hardship would impact their circumstances. See section 5.10 for more information.

Where a member claims that they are not able to repay any overpayment due to having spent the overpaid funds, and have changed their financial position as a result (for example on improving their lifestyle), the Administering Authority's understanding of the law is that this does not necessarily prevent recovery, and it may be for the member to prove in a court of law that they would not have incurred the equivalent expenditure anyway (i.e. had there not been the overpayment). In such cases it may be that partial recovery will be agreed i.e. the amount spent on changing the lifestyle will not be recoverable.

Where the Administering Authority is attempting to recover a lump sum overpayment, if the scheme member or representative refuses to engage with the correspondence, or cannot be found, the Finance/Accountancy team at the Administering Authority will make a recommendation on next steps. The administrators will be given instructions with appropriate sign-off. See section 10 for authorisation levels.

The Administering Authority's approach is designed to engage the member and encourage a dialogue to agree how the over/under payment will be resolved. However, in the case of an overpayment where the member does not respond after the Fund has written to them on two previous occasions over three months, the Fund will suspend the pension at the third time of writing. In such cases where appropriate, the Fund will seek expert legal advice.

Overpayment (and underpayment) of benefits will be recorded as a breach of the law in the Fund's breaches register. Such breaches will, in accordance with the Pensions Regulator guidance and the Fund's Procedure for Reporting Breaches of the Law, be reported to the Pensions Regulator where considered of material significance (for example, large in size or indicative of wider administrative issues).

The below sections set out the Fund's approach to overpayments in the following areas:

- Overpayments to an individual of an aggregate amount of less than £250;
- Overpayments discovered within 6 years;
- Overpayments discovered after 6 years;
- Recovery period;
- Recovery of overpaid pension on the death of a Scheme member;
- Recovery of overpayments of pension due to incorrect amounts being paid by the Administering Authority;
- Recovery of Pension Commencement Lump Sum overpayments;
- Recovery of overpayments of pension or lump sum due to incorrect information supplied by the employer;
- Overpayments due to Fraud or Corruption;
- Overpayments to an individual where recovery will cause material hardship.

5.1 Overpayments to an individual of an aggregate amount of less than £250

In line with the guidance set out in the HM Treasury document "Managing Public Money" (May 2023¹), the Administering Authority will consider the cost of recovery of the pension alongside the amount of the overpayment.

¹ <https://www.gov.uk/government/publications/managing-public-money>

The Administering Authority will not look to recover overpayments if the aggregate amount of the overpayment is less than £250, due to the anticipated administrative cost of recovering such amounts. This amount will be kept under review.

5.2 Overpayments discovered within 6 years

The Limitation Act 1980 sets out that a claim to recover overpayments has to be made within 6 years of the date when the cause (i.e. error, fraud or other criminal act) was first discovered or could, with reasonable diligence, have first been discovered. Where a claim is made within the 6-year period, all of the overpayment can be recovered.

The Administering Authority's approach is to seek full recovery in these circumstances unless there are other factors which need to be taken into account (as explained elsewhere in this policy).

5.3 Overpayments discovered after 6 years

Under the Limitation Act 1980, if the claim for recovery is made more than 6 years after the date when the overpayment could, with reasonable diligence, first have been discovered, only overpayments made within the 6 years prior to the date the formal claim for recovery was made are recoverable. Any overpayments that have occurred outside of this period will have the appropriate portion written off in accordance with section 10. In line with the outcome of the *Webber v Department of Education* court case, there may be circumstances where an overpayment already extends beyond six years, or there may be reasons to believe the case may protract. In these situations, advice should be sought from the Council's legal team to determine the benefit of initiating legal proceedings.

Case law in 2018 (*Burgess and others v BIC UK*) has shown that if a Fund attempts to recover an overpayment via a reduction to the member's future pension i.e. via "recoupment", as opposed to requesting a lump sum repayment, the 6 year Limitation Act limit doesn't apply and Funds can reclaim all overpayments made.

The Administering Authority's approach is to seek maximum recovery in these circumstances unless there are other factors which need to be taken into account (as explained elsewhere in this policy).

5.4 Recovery period

The Administering Authority will engage in discussions with the scheme member, their representatives, or next of kin to determine a suitable repayment period. The aim is to arrive at a mutually agreeable timeframe if possible, however, ordinarily the Administering Authority will recover a pension overpayment through a reduction to the pension paid over the same time period as the overpayment occurred. In exceptional circumstances the Fund may permit the recovery period to be extended, up to a maximum of 25% of the time period over which the overpayment occurred, at its discretion. Each such case will be considered on its merits.

Unless otherwise specified, the Administering Authority will aim to recover a lump sum overpayment immediately through a one-off recovery payment. The Fund may permit

alternative approaches at its discretion depending on the particular circumstances of the overpayment.

5.5 Recovery of overpaid pension on the death of a Scheme member

Fund members' next of kin or their estate (e.g. personal representatives or executors of will) will be contacted to explain the overpayment, along with an invoice detailing the overpaid amount.

5.5.1 Overpayment of pension which relates to more than £250

The Fund will look to recover overpayments of pension in all cases where the aggregate amount is in excess of £250, due to the anticipated administrative cost of recovering such amounts. In the first instance, the administrators of the Fund will attempt to contact the deceased member's personal representatives or next of kin for the funds to be recovered through a one-off payment from the members estate.

The Fund administrators will discuss the method of repayment with the estate if a one-off repayment or reduction to death grant is not possible.

Pension payments which are made for more than six months after the death of a member are classified as unauthorised payments for tax purposes. Please see the section on unauthorised payments for more details.

5.5.2 Overpayment of death grant.

Where the Fund has overpaid a death grant, any dependant's pension(s) will not immediately be reduced. The Administering Authority will contact the recipient(s) of the death grant to explain the error and provide the option of returning the overpayment via a one-off payment which will be invoiced directly, or via a reduction to any dependant's pension they are receiving. The recovery period will be determined on a case-by-case basis depending on the size of the overpayment, the size of any dependant's pension and the age of the beneficiary.

Where there is more than one recipient, the Administering Authority will generally seek to engage with the adult recipient if possible, or the recipient's guardian if the recipient who has been overpaid is a minor.

In all instances where a Death Grant might become payable from the Fund in respect of an active member, administrators are required to check the LGA National Insurance database to confirm that no other LGPS entitlements exist that would mean that there is no death grant due from Avon Pension Fund. In cases where the deceased member has entitlements in other LGPS Funds, Avon Pension Fund will liaise with the relevant Fund(s) to ascertain which death grant should be paid and determine the communication process with potential beneficiaries, the next of kin or personal representatives.

5.6 Recovery of overpayments of pension due to incorrect amounts being paid by the Administering Authority

When the overpayment is discovered, the pension will be reduced to the correct level, effective from the next available month. Where appropriate, a notice period of two months

pension payments will be given to the member. This notice period is provided, for example, if the member has been receiving their pension for some time and could not have reasonably known about the overpayment. This aligns with the PASA guidance, which considers it a practical minimum to allow pensioners the opportunity to make any adjustments to their personal finances. To comply with this, the Fund will establish a cut-off date before implementing the change in the subsequent month.

The member will be notified in writing with an explanation of the situation and how the overpayment along with an invoice detailing the overpaid amount. Where further investigations are required in order to determine the cause of the overpayment and the correct level of pension, the member will be informed of the situation and the pension in payment will not be corrected until the investigations and checks are complete.

5.6.1 Situations where the member could reasonably be aware of the overpayment

There are certain situations where a member could reasonably have been aware of the correct level of pension due and therefore cannot claim to have been unaware of the pension overpayment. In particular, in cases where the member has been notified of the correct rate of pension in writing, it can be said that the member can reasonably be aware that they are being overpaid.

The following is a list of scenarios where this may occur (this list is not exhaustive):

- Upon retirement the member was informed of the correct pension amount but an administrative error led to the incorrect amount being input onto the payroll record;
- A child in receipt of a dependant's pension is over 18 and is no longer in full time education or vocational training and does not notify the Fund;
- A Pension Sharing Order or Earmarking Order on divorce has been put in place but processed late, resulting in the pension being overpaid since the specified implementation date;
- Following the death of a member, their spouse is informed that a short-term pension is payable at a higher rate for three months before reducing. However, an administrative error results in the inadvertent continuation of the short-term payments.

In these situations, unless the total overpayment is below £250, the Administering Authority will seek to recover the total value of the overpayment from a reduction to the member's ongoing pension. Where there is no ongoing pension from which to deduct the overpaid amount, the member will be invoiced for the overpayment.

5.6.2 Situations where the member cannot reasonably have known of the overpayment

There are situations where a member may not reasonably have been aware of a pension overpayment. For example (this list is not exhaustive):

- Administrative error within the calculation of benefit entitlement (includes dependants' pensions) with the incorrect pension amount communicated throughout the settlement process, the incorrect (overstated) rate of pension input into the payroll record and the member informed in writing of the incorrect rate of pension to be paid.

The origin of this error could include incorrect provision of information to the Fund by the scheme employer;

- The Pensions Increase is inaccurately applied to the elements of a pension in payment;
- New information from HMRC leads to a revised Guaranteed Minimum Pension (GMP) which, due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.
- Failing to implement a National Insurance Modification at State Pension Age for members who left the scheme before 1 April 1998 and had pre-1 April 1980 membership.

In general, in such situations the Administering Authority will not seek to recover the total value of the overpayment. However, where the size of the aggregate overpayment is significant (over £10,000 this will be considered by the Head of Pensions and reported to the Pensions Committee annually to ensure that the general policy of not seeking to recover such cases remains appropriate. Furthermore, where non-recovery would result in an unauthorised payment and therefore additional tax charges for the member and Fund, the case will be considered on its own merits, and referred to the Head of Pensions where the total cost to the Fund (of the write off and any additional tax charges) is significant (over£10,000). These cases and the decisions made will be recorded in a breaches log.

It is expected that in all overpayment cases, until the time of discovery of the error the Administering Authority will have believed the pension in payment to be correct (e.g. where the overpayment is discovered following reconciliation of GMP with HMRC records). Such overpayments will therefore not be considered an unauthorised payment and so will not be subject to any additional tax charges².

5.7 Recovery of Lump Sum overpayments

For the purpose of this policy, this section relates to Pension Commencement Lump Sums, Trivial Commutation & “de minimis” Lump Sum overpayments.

5.7.1 Situations where member could reasonably be aware of the overpayment

There are certain situations where a member could reasonably have been aware of the correct level of lump sum due and therefore cannot claim to have been unaware of the overpayment. In particular, in cases where the member has been notified of the correct lump sum in writing, and the amount was paid shortly afterwards (for example, within six months), it can be said that the member can reasonably be aware that they have been overpaid.

The following is a list of scenarios where this may occur (this list is not exhaustive):

² This assumes that the conditions in Regulation 13 of the Registered Pension Schemes (Authorised Payments) Regulations 2009 are met, i.e.

- the payment was genuinely intended to represent the payment of a pension under the LGPS regulations
- the payer believed that the recipient was entitled to the payment, and
- the payer believed that the recipient was entitled to the incorrect amount.

- Upon retirement the member was informed of the correct lump sum amount, but an administrative error led to the incorrect amount being paid.
- The Administering Authority paid the same (correct) lump sum amount twice, in error.
- In the period leading to retirement the member was given a retirement quotation with a correct estimated lump sum amount, but a later administrative error led to a much larger (incorrect) amount being stated on the final retirement documentation and being paid.

When the overpayment is discovered by the Administering Authority, an attempt to recover the overpayment will be made as soon as possible. The member will be notified in writing to explain the situation, and the Administering Authority will seek to recover the amount in full through one immediate repayment.

5.7.2 Situations where the member could not reasonably have known of the overpayment

There are situations where a member may not reasonably have been aware of a lump sum overpayment. For example, an administrative error within the calculation of the benefit entitlement resulted in the incorrect lump sum amount, which was communicated throughout the settlement process, and the incorrect amount was then paid, and the incorrect amount stated in any payment notification.

When the overpayment is discovered, by the Administering Authority, consideration will be given to the length of time which has passed since the error was made to determine the approach to take, but generally an attempt to recover the overpayment will be made as soon as possible. The member will be notified in writing to explain the situation, and a proposed recovery plan will be set out, which will depend on the amount overpaid and how much time has passed since it was paid. This recovery plan is subject to agreement with the member. The amount will not be recovered via a reduction of the member's pension unless this is agreed with the member.

5.8 Recovery of overpayments of pension or lump sum due to incorrect information supplied by the employer

This situation may arise for a number of reasons. An example might be if the employer initially notifies the Fund that a member is entitled to unreduced benefits, but this information is later revised, resulting in reductions to the payments being made before their normal pension age. Similarly, discrepancies in pensionable pay figures may be initially provided and subsequently corrected.

In cases where an overpayment of pension or lump sum occurs due to inaccurate information provided by the scheme member's employer on retirement, such as pensionable pay, the Administering Authority will seek to recover monies through the scheme member's ongoing pension.

The Administering Authority will manage any challenges resulting from such errors following the procedures set out in the Pensions Administration Strategy. For example, the Administering Authority may recharge the administrative cost of recovering such pension directly from the employer, and where recovery from the member in question is not

possible, the employer may be asked to repay the overpayment to the Fund.

5.9 Overpayments due to Fraud or Corruption

On rare occasions members' benefits may be overpaid due to:

- Fraud by the member, a relative or the member's estate
- Fraud by the employer
- Fraud by a pensions officer
- Other criminal activity such as blackmail or corruption

Where after reasonable investigation an overpayment is discovered to have been made due to fraud or any other criminal act, the pension will be suspended, and an attempt will be made to recover the overpayment of pension and lump sum immediately.

The Administering Authority will involve internal audit in such cases and the settlement of overpayments may be resolved through appropriate civil or criminal legal process which may include contacting the Police.

In dealing with such cases, we will also follow the principles set out in the Fund's Procedure for Reporting Breaches of the Law and the Bath and North East Somerset Council's Anti-fraud and Corruption Strategy <https://intranet.bathnes.gov.uk/anti-fraud-and-whistleblowing>
This strategy includes the following policies:

- Whistleblowing Policy
- Anti-Money Laundering Policy and Guidance
- Anti-Bribery and Corruption Policy

5.10 Overpayments to an individual where recovery will cause severe hardship

In line with the guidance set out in the HM Treasury document "Managing Public Money" (May 2023³), where the member has demonstrated that the recovery of an overpayment would cause hardship, the Administering Authority will consider whether to waive the recovery of the payment. Any such pleas of hardship must be supported by reasonable evidence that the recovery of the overpayment would be detrimental to the welfare (financial or mental) of the individual or their family.

For the purpose of this policy, severe financial hardship is broadly defined as the adverse financial impact that a reduction in pension payments could impose on a member's ability to maintain a basic living standard. This includes their capacity to cover essential expenses such as mortgage or rent payments, household bills, and any day-to-day necessities like food.

In general, when arranging recovery of an overpayment, the member's ongoing pension will not be reduced to below 50% of the full (corrected) amount. For the purpose of this policy, the full corrected amount refers to the accurate level of pension the member is entitled to after the identification of an overpayment. The ongoing pension represents the pension level after deducting a payment to recover the overpayment.

³ www.gov.uk/government/publications/managing-public-money

Further details of the procedure and the required evidence will be provided upon request. In these cases, officers of the Administering Authority will consult with the scheme member, and where appropriate the Administering Authority will seek expert legal advice.

This approach is intended to reduce the number of Internal Disputes and referral to the Pensions Ombudsman.

5.11 Monitoring repayments

When recovering any overpayment through payroll deductions, the Administering Authority will take responsibility for executing the necessary payroll entries for debit collection. This process involves ensuring the deductions cease promptly upon settlement of the debt by establishing an end date in Altair.

In instances where recovery is not facilitated through payroll deductions and an invoice has been raised, the responsibility for monitoring debit repayment falls to the Fund. In the event of a final reminder preceding legal action, the Head of Pensions will be promptly notified. The decision to pursue legal action will rest with the Head of Pensions, who will consider factors such as the overpayment amount, individual case circumstances, and the need for appropriate sensitivity.

6. Managing underpayments of benefits

In this section:

- General principles for repayment of underpaid pension or pension commencement lump sum payments;
- Underpayment of pension resulting from incorrect information supplied by the employer;
- Underpayment of pension discovered following the death of a Scheme member.

This section covers the general principles for ad hoc underpayments. Please see section 9 for underpayments arising as a result of the McCloud judgment.

6.1 General principles for repayment of underpaid pension or pension commencement lump sum payments

Where an underpayment of pension or lump sum is identified by the Administering Authority, the pension will be immediately increased to the correct level. The member will receive written notification of the underpayment if the total underpaid amount exceeds £5.

The underpayment will be reimbursed to the member in one lump sum payment which is paid through the pensions payroll with the next monthly pension payment. This is to ensure the correct rate of tax is applied.

Interest will be paid on the underpaid amount(s) in line with Regulation 81 of the LGPS Regulations (in particular, interest is due on pension payments which are more than 1 year late, and on lump sum payments which are more than 1 month late). Interest payable under this regulation is calculated at one per cent above base rate from the due date of payment and compounded with three-monthly rests.

Lump sum payments to rectify underpayments are treated as income for tax purposes and the tax will be deducted through Pay As You Earn (PAYE) in the usual way. The tax deducted will be estimated and may not be the correct amount once all of the member's income for the year is taken into account. After the next 5 April, HM Revenue & Customs (HMRC) will check whether each member has paid the correct amount of tax and if not they'll contact the member directly. Members can contact HMRC directly if they think they have paid too much tax and request a refund. Where the Administering Authority deems appropriate or upon receiving a request from a member, a year-by-year breakdown of the arrears will be provided. This enables the member to address any tax queries can be addressed with HMRC.

6.2 Underpayment of pension resulting from incorrect information supplied by the employer

The underpayment to the member will be dealt with as described in 7.1 above. The Fund may recharge the administrative cost of investigating and verifying the underpayment amount, as well as corresponding with the affected members or dependants, to the employer if it is deemed to require a disproportionate amount of work. This action will align with the Pensions Administration Strategy.

6.3 Underpayment of pension or death grant discovered following the death of a Scheme member

Where the member has died since the underpayment has been identified, the arrears will be paid to the deceased member's estate. In these cases, a claim form is sent to the member's next of kin, and if the total amount payable to the estate is below £5,000 the Administering Authority will pay the amount to the person specified on the claim form. If it is above £5,000 the original Grant of Probate or Letters of Administration is requested before payment is made.

If a death grant payment is discovered to have been underpaid, (including where the balance of 10 years' annual pension is due to a deceased member's estate following the death of a pensioner), the underpayment will be reimbursed to the party determined previously in accordance with the exercise of the Fund's discretion under the LGPS Regulations 2013 providing it is paid before the period of two years beginning with the earlier of the day on which the Administering Authority first knew of the members death and the day on which the admin authority could first reasonable have expected to have known of it. Any death grant underpayment paid after this period would be paid to the deceased's personal representatives and will be subject to a tax charge. For more information on this please see section 12.

7. Underpayments and Overpayments of Guaranteed Minimum Pensions (GMP)

A Guaranteed Minimum Pension (GMP) is the minimum pension the Fund must provide in relation to being contracted-out of the State Earnings Related Pension Scheme from April 1978 to April 1997. It is a notional benefit which is only paid if a member's Fund benefits are less than the GMP; it is not a separate benefit payable in addition. Not all members in the Fund between 1978 and 1997 will have accrued any GMP.

The Authority is undertaking a reconciliation of HMRC records vs APF records, from which the Authority will determine the correct pensions payable to each member. How resulting changes to members' pensions are implemented and how any over/under payments are managed with members, will follow relevant policies explained in earlier sections of this policy.

8. Underpayments due to the McCloud judgment

The Fund is currently undertaking this benefit rectification exercise, which is expected to conclude by August 2025. Any underpayments will be rectified, and the arrears paid according to legislation and McCloud statutory guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC). This may mean that the treatment of underpayments due to the McCloud remedy is not consistent with the remainder of this policy, albeit the Administering Authority will have regard to this Policy when making any decisions.

9. Underpayments and Overpayments of other benefit settlement amounts

9.1 Transfer values

Where an individual transfer value for a member who has transferred Avon Pension Fund benefits to another pension arrangement is discovered to have been underpaid, the correct amount will be calculated, and the underpayment will be paid to the receiving scheme. Where the member's new scheme is not able to accept the balance transfer payment, an alternative pensions savings vehicle will be sought, and payment made once agreed by the Head of Pensions

If a transfer is discovered to have been overpaid, then the correct amount will be calculated, and the Administering Authority will attempt recovery of the overpaid amount from the receiving scheme.

Where a transfer should not have been paid because the member was not eligible for a transfer payment (e.g. if they already have an LGPS pension in payment), the transfer becomes an unauthorised payment. Please refer to section 12 regarding unauthorised payments for more details.

9.2 Refund of contributions

Where a member has received a refund of contributions on leaving active membership in the Fund and this amount is discovered to have been underpaid, the underpayment will be paid to the member less any tax due.

If a refund of contributions is discovered to have been overpaid, then a request for the member to repay the overpayment may be made depending on the situation (e.g. size of the overpayment and whether the overpayment was due to an employer error, and whether the member could reasonably have known this was an overpayment).

Where a refund should not have been paid because the member had previous LGPS service, the refund becomes an unauthorised payment. Please refer to section 11 unauthorised payments for more details.

10. Authorisation

Overpaid amounts of £250 or more for which an invoice has been issued are passed to the Council's Debt Recovery team to follow up on the repayment. If no repayment or response is received this is passed back to the Administering Authority to determine whether or not to write off the overpayment. Any sum which is written off is treated as a liability against the scheme member's former employer.

In line with Bath and North East Somerset Council's Scheme of Delegation and Financial Procedure Rules, the Fund will apply the following levels of authority when writing off overpayments:

Total value of overpayment	Authority to write off overpayment
Up to £250	Pensions Payroll Senior Officers
Between £250 - £5,000	APF Service Manager
Above £5,000	Head of Pensions

Any sum which is written off is treated as a liability against the scheme member's former employer.

Where any guidance regarding the write off of overpaid pension is provided for the Local Government Pension Scheme (LGPS) as a whole (for example in relation to the rectification of benefits due to the McCloud), the Administering Authority will follow such guidance as long as this does not contradict other Bath and North East Somerset Council policies which override such guidance.

11. Unauthorised payments

The Finance Act 2004 sets out the payments which a registered pension scheme is authorised to make to members. Any other payments are unauthorised payments and could result in tax charges for the member and the Fund.

The Administering Authority understands that any overpayment which is written off is an unauthorised payment unless it falls within regulations 13 or 14 of the Registered Pension Schemes (Authorised Payments) Regulations 2009. Where an unauthorised payment has been made the Administering Authority will engage with His Majesty's Revenue and Customs (HMRC) to resolve the issue and establish any resulting tax charges. The Administering Authority is obliged to report any unauthorised payments to HMRC each year

in their annual event report. We do not expect Regulation 14 to apply but it is expected that the conditions of Regulation 13 would apply in most cases i.e.:

- the payment was genuinely intended to represent the payment of a pension under the LGPS regulations
- the payer believed that the recipient was entitled to the payment, and
- the payer believed that the recipient was entitled to the incorrect amount.

Where the overpayment is a "genuine error" as described in HMRC's PTM146300 and the aggregate overpayment is less than £250, if this is waived by the Administering Authority this is an unauthorised payment but does not have to be reported to HMRC, and HMRC will not seek to collect tax charges on it. If overpayments which are the result of a "genuine error" are recovered, in general these are not considered to be unauthorised payments and so additional tax charges do not apply.

Where an overpayment is an unauthorised payment, both the individual member and the Fund will have to pay additional tax charges. These charges are as follows:

The unauthorised payments charge

Where the unauthorised payment is made to or for a member, it's the member who is responsible for paying the tax charge. If the payment is made after the member's death, the person who receives the payment is responsible for paying the tax.

The rate of the unauthorised payments tax charge is 40% of the overpayment.

The unauthorised payments surcharge

This is payable by the same person who is subject to the unauthorised payments charge. It is usually due when a member receives unauthorised payments of 25% or more of their pension value in a year. This is very unlikely to occur, but when it does the rate of the unauthorised payments surcharge is 15%. This means that with the unauthorised payments charge, the total tax rate payable on the overpayment would be 55%.

The scheme sanction charge

The scheme administrator must pay the scheme sanction charge, and this is at a rate of between 15 and 40% of the unauthorised payment and depends on whether or not the unauthorised payments charge has been paid by the member.

The Administering Authority will apply to be discharged from the tax charge where it would not be just and reasonable for the Fund to pay the tax, e.g. where the Administering Authority has been misled or given incomplete information leading them to assume that the payment was an authorised payment.

Where the member could not reasonably have known of the overpayment, the Administering Authority may offer to pay the member tax charge on behalf of the member. The Administering Authority will require the member to provide written authorisation to do this. This will be set out clearly in any correspondence to the overpaid member. As the LGPS regulations do not explicitly address compensation for direct financial loss, any such case will be raised with the Council and assessed under their powers pursuant to the Localism Act 2011.

A deceased person has no unauthorised payments tax liability.

Further details on unauthorised payments are available on His Majesty's Revenue and Customs website: <https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm131000>.

12. Policy adoption and review

This Overpayment and Underpayment of Pension Scheme Benefits and Contributions Policy is effective from (INSERT DATE) and was approved by the Pensions Committee on 22 March 2024.

Bath and North East Somerset Council will periodically review this policy in response to any changes in the LGPS or other relevant legislation. Additionally, it will be subject to a formal triennial review and be updated as required. An annual light-touch review by officers will ensure ongoing appropriateness. Any significant updates will be subject to consideration and approval by the Pensions Committee, and the revised policy will be published as a public document following approval.

When undertaking a review of this policy the Council will have regard to the current legislation and the extent to which the exercise of the policy could lead to a serious loss of confidence in the public service.

Bath and North East Somerset Council reserves the right to amend this policy at its discretion provided it republishes the modified policy at least one month in advance of the changes taking effect.

13. Further Information

If you require further information about anything in or related to this Policy, please contact:

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Bath and North East Somerset Council
Lewis House, Manvers Street,
Bath, BA1 1JG

E-mail: avonpensionfund@bathnes.gov.uk
Tel: 01225 395100

14. Policy approval and version control schedule

Version	Updated by	Reason for change	Approved by	Date

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Bath & North East Somerset Council		
MEETING	AVON PENSION FUND COMMITTEE	
MEETING	22 March 2024	Agenda Item Number
		16
TITLE:	Update on Legislation	
WARD:	All	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 - Current matters affecting LGPS administration</p>		

1 THE ISSUES

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

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 FINANCIAL IMPLICATIONS

- 3.1 There are no financial considerations as this report is for information only.

4 THE REPORT

- 4.1 The table below provides a summary of the main regulatory updates since the last meeting, including brief comment on what the implications are for the Fund and what the next steps will be.

5 RISK MANAGEMENT

5.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

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 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 Paris Aligned Global Equities, Sustainable 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 Director of One West & APF has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nicky Russell – Technical and Compliance Manager; Tel 01225 395389
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	

Item	Latest Position	Relevant Links	Action by Fund / Next Steps
<p data-bbox="91 730 129 871" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 163</p> <p data-bbox="73 233 232 304">McCloud Judgment</p>	<p data-bbox="264 233 987 584">On 15 November 2023, a technical guide was issued to Funds to assist administering authorities with implementing the McCloud remedy. Given the breadth and complexity of the project (and that further guidance still awaited in certain areas), this was the first instalment of the technical guide more are to follow. An informal consultation on the statutory guidance is expected in the coming weeks.</p> <p data-bbox="264 616 987 839">Further communications have taken place between the Teachers Pension Scheme (TPS) and employers/administering authorities with regard to collating data so the remedy in relation to the Teachers' excess service element of the Judgment can be implemented.</p> <p data-bbox="264 871 987 1062">In January, DLUHC issued new LGPS actuarial guidance confirming how the McCloud remedy should be reflected in certain calculations, namely early/late retirements, transfers in/out and also interfunds.</p>	<p data-bbox="1019 233 1516 304">https://lgpslibrary.org/assets/gas/uk/Underpinv1.0.pdf</p> <p data-bbox="1019 336 1516 568">https://www.teacherspensions.co.uk/news/employers/2023/10/transitional-protection-and-members-with-local-government-pension-scheme-lgps-linked-excess-service.aspx</p> <p data-bbox="1019 600 1516 791">https://www.teacherspensions.co.uk/employers/scheme-changes/local-government-pension-scheme/managing-lgps-linked-excess-service?</p> <p data-bbox="1019 823 1516 887">https://www.lgpsregs.org/schemeregs/actguidance.php</p>	<p data-bbox="1547 233 2163 663">Whilst administration software had been updated to enable business as usual cases to be processed by the administration team, an issue subsequently emerged when a new version of the software was released in early December 2023 and this issue was only resolved in February 2024. The issue meant that the admin team needed to be extra vigilant with any McCloud calculations and where wrong, these had to be manually amended.</p> <p data-bbox="1547 759 2163 951">The Fund are also working through a number of system issues for McCloud which have been identified by the software provider since switching on the McCloud functionality in October 2023.</p> <p data-bbox="1547 1046 2163 1270">The updated guidance issued by DLUHC in relation to transfer calculations also now needs to be reflected in processes within the administration team. Further guidance and support on other calculations is still awaited.</p>

Appendix 1

			<p>There remains a lot of work for the team to undertake to implement the remedy in full both in terms of calculations and communications including any potential retrospective tax adjustments alongside the remedy itself. The team will continue to rely on central support and also external advisory support as part of this process given the complex nature of some elements of the remedy.</p>
<p>Codes of Practice</p> <p>Page 164</p>	<p>On 10 January 2024, the Pensions Regulator (TPR) published the final version of its much-anticipated new general code of practice (‘the Code’). The Code has to be laid before Parliament for a set period, and TPR has said that it expects the Code to come into force on 27 March 2024 and a web-based modular version will become available at this time.</p> <p>There appears to be no major surprises with the final version and much of the draft code (last consulted on in March 2021) remains. There have been a number of areas/requirements within the Code that have been clarified though in response to the consultation. In particular for the LGPS, the definition of Governing Body for public service pension schemes, which has been confirmed to be the scheme manager.</p>	<p>https://www.thepensionsregulator.gov.uk/en/document-library/consultations/new-code-of-practice</p>	<p>The Fund has already established a workplan to consider what action needs to be taken to ensure the requirements of the General Code will be met and this will be updated as further details emerge for LGPS Funds on what “must” be done and what would be “good practice” to do.</p>

Appendix 1

	<p>There are 51 modules in total in the code although not all will directly apply to LGPS funds. There are some areas though that will be deemed “good practice” to follow rather than “must” follow.</p>		
<p>Pensions Dashboard</p> <p>Page 165</p>	<p>LGA have now issued their draft LGPS Pensions Dashboards connection guide. The guide outlines stages that administering authorities need to allow for, in order to connect to the dashboards ecosystem, as well as setting out decisions to be made and actions required to be undertaken by authorities.</p> <p>A final version of the guide is due to be published in due course, once the Money and Pension Service (MaPS) have issued their guidance on the staged timetable for connection and this is expected to be published in Spring 2024.</p> <p>Alongside the above, further guidance/communications have been issued by the Pension Administrators Standards Association and the Pensions Dashboards Programme in relation to connection / FAQs.</p>	<p>https://lgpslibrary.org/assets/gas/uk/PDv0.1.pdf</p> <p>https://www.pasa-uk.com/wp-content/uploads/2023/12/PASA-Connection-Readiness-Guidance-FINAL.pdf</p> <p>https://www.pasa-uk.com/wp-content/uploads/2023/12/CR-call-to-action-FINAL.pdf</p> <p>https://www.pensionsdashboardsprogramme.org.uk/category/news/blogs/</p> <p>https://www.pensionsdashboardsprogramme.org.uk/frequently-asked-questions-newsletter/</p>	<p>A separate update will be provided on this item in the administration report in relation to what actions have/are being taken by the Fund.</p>

Appendix 1

<p>Levelling Up / Pooling</p>	<p>At the end of November 2023, the Government issued its response to the Next Steps on Investments Consultation. Despite acknowledging material pushback from respondents to a large number of the initial proposals, the Government have largely pressed ahead with the initial proposals unchanged although there were some welcome changes/clarifications , including a “comply or explain” basis in relation to the 31 March 2025 pooling deadline. Further guidance is now awaited.</p>	<p>https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response</p>	<p>The pooling guidance, once published, will be considered further by the investment team.</p>
<p>Responsibility Investment</p>	<p>In November 2023, a report was received by the Scheme Advisory Board from Amanah Associates, experts in Islamic finance, who the Board had commissioned to assess whether the LGPS is Sharia compliant and to consider views that Muslim members may have regarding this issue.</p> <p>The Board published the report in January 2024. The report concluded that there were no any barriers to Muslim members contributing to the LGPS and receiving the benefits offered.</p> <p>The Board has confirmed that it's unable to implement directly any recommendations from the</p>	<p>https://lgpsboard.org/images/Reports/ShariaandLGPS/An_Opinion_on_the_Shariah_Compliance_of_LGPS.pdf</p>	<p>These updates, and the impact on the Fund, will be considered further by the investment team as the position develops and any recommendations emerge.</p>

Appendix 1

	<p>report given that any changes to the rules of the scheme have to be agreed by the Minister, following SAB recommendation. No such changes will be considered until further advice from Counsel has been received.</p>		
Page 167	<p>Pension Taxation</p> <p>As expected HM Treasury (HMT) announced in the Autumn Statement in November that the lifetime allowance (LTA) will be abolished from 6 April 2024 and the abolition was subsequently included in the draft Finance Bill 2023 that was published on 29 November 2023.</p> <p>Further publications have been released by HMT and HMRC setting out the implications of the LTA abolition in terms of taxation of lump sum benefits, treatment of any protections and also transitional arrangements and reporting requirements.</p>	<p>https://www.gov.uk/government/publications/autumn-statement-2023</p> <p>https://bills.parliament.uk/bills/3514</p> <p>https://www.gov.uk/government/publications/abolition-of-the-lifetime-allowance-from-6-april-2024/abolition-of-the-lifetime-allowance-lta</p> <p>https://www.gov.uk/government/publications/lifetime-allowance-guidance-newsletter-december-2023/lifetime-allowance-guidance-newsletter-december-2023</p> <p>https://www.gov.uk/government/publications/pension-schemes-newsletter-155-january-2024</p>	<p>Whilst the removal of the LTA will be beneficial to members, there remains a number of practical considerations that the administration team will need to take into account when implementing the changes. These will also need to be communicated to members.</p> <p>Further guidance is awaited.</p>
	<p>Cyber Security</p> <p>On 11 December 2023, recognising the increasing cyber security risks faced by schemes, TPR issued updated guidance to Fund officers relating its cyber</p>	<p>https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-</p>	<p>The Fund continues to assess and monitor the risks associated with Cyber Security.</p>

Appendix 1

	<p>security principles that were first introduced back in 2018.</p> <p>The principles build on those set out previously in relation to roles and responsibilities and focus on assessing and understanding risks, ensuring controls are in place, and also responding to, and reporting of, incidents.</p> <p>TPRs General Code also included a new module in relation to Cyber Controls.</p>	<p>releases/cyber-security-guidance-revised-to-help-tackle-threat</p> <p>https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/cyber-security-principles</p>	
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Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	22 March 2024
TITLE:	GOVERNANCE UPDATE
WARD:	ALL
AN OPEN PUBLIC ITEM	
<p>List of attachments to this report:</p> <p>Appendix 1 – Terms of Reference for Committee & Investment Panel</p> <p>Appendix 2 - Risk Register</p> <p>Appendix 3 – Risk Register Framework and High Level Summary</p> <p>Appendix 4 – Committee Workplan</p> <p>Appendix 5 – Training Programme</p>	

1 THE ISSUE

- 1.1 Attached to this report is:
- 1.2 The amended Terms of Reference for the Committee & Investment Panel for approval is attached as Appendix 1.
- 1.3 The risk register which has been reviewed and updated and is attached as Appendix 2 and 3.
- 1.4 The work plan for the Committee is attached as Appendix 4 and the provisional training programme for 2024 is included as Appendix 5.

2 RECOMMENDATION

- 2.1 That the committee:
 - 2.1.1 Approves the Terms of Reference
 - 2.1.2 Notes the risk register
 - 2.1.3 Notes the Committee workplan & training programme.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no financial considerations to consider. The cost of the LGPS Online Learning Academy licences is within the budget already agreed.

4 THE REPORT

4.1 COMMITTEE & INVESTMENT PANEL TERMS OF REFERENCE

4.1.1 Attached as Appendix 1 to this report is the amended Terms of Reference for approval. One change has been made to reflect decisions regarding the Local Impact Portfolio Framework being delegated to The Head of Pensions in conjunction with the working group. The working group will consist of at least 3 Panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group Manager Investments and the Investments Manager. The formal decision will be taken by the Head of Pensions as an Officer Decision Report via the normal democratic reporting processes within Bath and North East Somerset Council.

4.1.2 The revised TOR will be put forward for approval by Council in June.

5 RISK REGISTER

5.1.1 The Fund has in place a documented risk management policy setting out the Fund's approach to risk, process for review and update of the risk register. It also sets out the roles and responsibilities of all those involved in the management of risk within the Fund including the role of the Pension Board and Pension Committee.

5.1.2 The risk framework to assist risk owners to assess the risk and score is attached as appendix 3

5.1.3 A high level matrix showing the distribution of risks by score is attached as appendix 3.

5.1.4 The complete risk register is attached as appendix 2.

- The risk register identifies risks which could have material impact on the APF in terms of service, value, reputation, or compliance. It also sets out mitigating actions.
- The risk register is reviewed quarterly by APF management and reported to the Pension Committee and Pension Board every quarter.
- All risks are also reviewed quarterly or when there has been a material change to the risk.
- Risks fall into the following categories, owned by the relevant member of the APF management team:

Category of Risk	Risk Owner
Administration	Pensions Manager
Regulatory	Technical & Compliance Advisor
Governance	Governance & Risk Advisor
Employers (Funding)	Funding & Valuation Manager
Employers (Data)	Employer Services Manager
Investments	Investments Manager
Finance	Finance & Systems Manager

5.2 Quarterly Review of Risk Register

1.1. As part of the quarterly review the pre mitigation scores have been reviewed and a couple adjusted as follows:

- Risk NR04 – Governance of Fund, the pre mitigation likelihood has been increased from likely to almost certain to reflect the risk associated with not having internal controls.
- Risk NR08 – Employers unable to meet financial obligations, the pre mitigation likelihood has been changed from possible to likely to reflect the fact that the underlying risk has increased.

1.2. Other changes made to the post mitigation scores this quarter are:

- Risk NR18 - Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders. On review the impact has been reduced from high to medium impact to reflect the mitigating actions taken.
- Risk NR08 – Employers unable to meet financial obligations to Fund. The impact has been reduced from high back to medium as there is now more certainty that if a Local Authority fails it will be regulatory to pay employer contributions.

1.3. Our most critical risks remain:

- NR01 – Ability to deliver admin service to members and employers within agreed standards. The current factors impacting this risk are set out in item 13 – Pension Fund Administration report.
- NR06 – the likelihood of a cyber attack remains a high risk due to the recent high profile attacks in the public domain. The Fund is currently implementing further audit actions around staff awareness and education and will shortly carry out a review of its business continuity plan.
- NR04 – Governance of Fund not in accordance with APF policies
Controls not adequate. Internal audit continue to assist in checking of internal controls.

6 Workplans & Training Plan

6.1 Workplans

- a) The workplan for the Committee for the year ahead is attached as Appendix 4. 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.

6.2 Training Programme

The provisional training programme for 2024 is also included as Appendix 5, so that Members are aware of intended training sessions and workshops. The plan will be updated quarterly.

6.3 Hymans LGPS Online Learning Academy (LOLA)

- 6.3.1 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).
- 6.3.2 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.
- 6.3.3 The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework.
- 6.3.4 The modules are set out below:
 - a. Committee Role & Pensions Legislation
 - b. Pensions Governance
 - c. Pensions Administration
 - d. Pensions Accounting and Audit Standards
 - e. Procurement & relationship Management
 - f. Investment Performance & Risk Management
 - g. Financial Markets & Products
 - h. Actuarial Methods, Standards & Practices
 - i. Current Issues
- 6.3.5 The schedule for completion of the modules is contained within the training programme (Appendix 5) for members who have not already completed the previous version.

7 FUTURE MEETING DATES

7.1 Pension Committee meetings as currently scheduled:

2024	2025
22 March	28 March
28 June	27 June
20 September	26 September
13 December	12 December

7.2 The provisional dates for the Investment panel meetings are:

2024
27 February
5 June
5 September
26 November

8 RISK MANAGEMENT

8.1 Forward planning and training plans form part of the risk management framework.

9 EQUALITIES STATEMENT

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

10 CLIMATE CHANGE

10.1 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 Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

11 OTHER OPTIONS CONSIDERED

11.1 None.

12 CONSULTATION

12.1 The Council's Director of One West & APF has had the opportunity to input to this report and has 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.	

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(1) AVON PENSION FUND COMMITTEE

Committee Scope

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision-making body for the Fund.

The Avon Pension Fund is a member of the Brunel Pension Partnership (Brunel). Brunel Pension Partnership Ltd (BPP Ltd) who will be responsible for implementing the Fund's Investment Strategy. Most of the Fund's assets have transferred to portfolios offered by Brunel with only less liquid legacy assets remaining under direct management of the Fund. Once Avon's assets are held within a Brunel portfolio, the appointment, monitoring and deselection of managers will be the responsibility of BPP Ltd.

Functions and Duties

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, the investment strategy and the investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Having taken appropriate advice determining the following:
 - a. the investment strategy and strategic asset allocation
 - b. the administration strategy
 - c. the funding strategy.
2. Monitoring the performance of the investment strategy, scheme administration, and external advisors.
3. Ensuring that the investment strategy can be delivered by the portfolios offered by BPP Ltd. If not, agree alternative arrangements. In relation to Brunel Pension Partnership:
 - a. Monitoring the performance of BPP Ltd in delivering investment services to the Fund. Make representations to the Brunel Oversight Board on matters of concern regarding the service provided by BPP Ltd and the performance of its portfolios.
 - b. Monitoring the governance of Brunel Pension Partnership and making recommendations to the Brunel Oversight Board. Terminating the Service Agreement with BPP Ltd.
4. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
5. Approving the annual budget and 3-year Service Plan and resource requirements to deliver the work plan.



6. Approving variances to budget within a financial year.
7. Approving the annual budget for the Pension Board subject to the approval of Pension Board's work plan.
8. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
9. Making representations to government and responding to consultations as appropriate concerning any proposed changes to the Local Government Pension Scheme.
10. Nominating a representative (and named substitute) from the Committee to represent the Committee on the Oversight Board for Brunel Pension Partnership.

Delegations

In discharging its role, the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out below.

Composition

Voting members (14)	<p>5 elected members from B&NES (subject to the rules of political proportionality of the Council)</p> <p>3 independent members</p> <p>1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council</p> <p>1 nominated from the Higher and Further education bodies</p> <p>1 nominated from the Academy bodies</p> <p>1 nominated by the trades unions</p>
Non-voting members (3)	<p>1 nominated from the Parish Councils</p> <p>Up to 2 nominated from different Trades Unions</p>

The Council will nominate the Chair and Vice Chair of the Committee. The Vice Chair will be the Chair of Investment Panel.

Meetings

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Quorum

The quorum of the Committee shall be 5 voting members who shall include at least 1 member not from Bath and North East Somerset Council

Substitution

Named substitutes to the Committee are allowed.



(2) INVESTMENT PANEL

Committee Scope

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

Functions

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 matters 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 the strategic allocations.
7. Approve commitments to Brunel's private market portfolios at each commitment cycle to maintain strategic allocations.
8. For the Risk Management Strategies monitor the outcome versus strategic objectives and consider whether any strategic changes are required to manage emerging risks.
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.

Composition

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors (including the Chair and Vice-Chair of the Committee) and 3 will be the Independent Members.

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a full 4-year Committee term.

The Council will nominate the Chair of the Panel.



Panel Meetings

Though called a “Panel”, it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Minutes

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

(3) BRUNEL OVERSIGHT BOARD REPRESENTATIVE

Committee Scope

Brunel Oversight Board (the Board) is the primary governance body within the Brunel Pension Partnership. Each Fund within the partnership has a representative on the Board and this representative represents the Committee when discharging its duties. The Fund’s representative will be the Committee Chairperson.

Functions

Acting for the administering authorities in their capacity as shareholders in BPP Ltd., the Board has responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling across the Brunel Pension Partnership.

Subject to the terms of reference for the Board and the applicable shareholder documentation, the Board’s role is to consider and address relevant matters on behalf of the administering authorities. These include the monitoring and strategic oversight functions necessary to its role, as well as acting as a conduit and focus of shareholder requirements and views.

Consistent with this role, the Board’s duties include reviewing and discussing any matter which it considers appropriate in relation to BPP Ltd including BPP Ltd.’s services, performance, operations, governance, strategy, financing and management.

The main duties of the Board Representative are:

1. To represent the Committee and Shareholder on the Brunel Oversight Board.
2. To ensure that the Committee’s views are communicated to the Board and BPP Ltd.



3. To ensure the Fund's and shareholder's interests are protected within Brunel in line with the legal framework within which Brunel operates.
4. To report back to the Committee and Shareholder all relevant issues discussed by the Board and recommendations to the Brunel Client Group and/or the Shareholders.
5. To seek the consensus view of the Committee for Shareholder and Board matters where necessary.
6. To raise issues with the Board at the request of Committee members, the shareholder representative or Head of Pensions.

(4) BRUNEL PENSION PARTNERSHIP WORKING GROUP

Committee Scope

This is a group of Committee members whose role is to consider in greater detail any issues arising from Brunel Pension Partnership with Officers, for example Reserve Matters, papers to be discussed at BOB. This will not include routine investment matters which are monitored by the Investment Panel.

Functions

With regard to any matters arising from Brunel Pension Partnership where the Avon Pension Fund have an interest:

- a) to consider each matter that will be brought to the Pension Committee and/or Shareholder representative for decisions in due course
- b) to provide guidance to the Pension Committee and/or Shareholder Representative in relation to each matter when they are being considered
- c) to provide guidance to the BOB representative as required
- d) to make recommendations to the Pension Committee regarding general oversight of the pool, as considered appropriate.

Composition

This group will consist of:

- a) the BOB Representative,
- b) named BOB substitute
- c) the Chair and/or Vice Chair if not the BOB representative /substitute
- d) an independent committee member.
- e) Head of Pensions
- f) Group Manager, Funding, Investments and Risk

Quorum

The Working Group shall be quorate if three members are in attendance, with at least 2 that are not fund officers. The Head of Pensions shall chair the Working Group.

Meeting Arrangements

The Working Group shall meet as and when required as determined by the Head of Pensions. Meetings may be via telephone conference.



Key discussions and action points from the Working Group will be recorded and the committee will be updated at the next committee meeting.

(5) OFFICER DELEGATIONS

In addition to the responsibilities listed in the Council's scheme of delegation, some additional responsibilities for functions specifically related to pension fund activities and the authorisation of transactions have been delegated to officers by the Pension Fund Committee. These are set out in the Fund's Scheme of Delegation and include the following:

1. Implementation and day to day monitoring of the administration, investment and funding strategies and related policies.
2. Implementing investments in emerging opportunities within strategic allocations, either to be managed outside Brunel or instruct allocation to Brunel portfolio.
3. Implementing investment management arrangements in line with the strategic policy as follows:
 - a. For assets managed outside Brunel, this includes the setting of mandate parameters and the appointment of managers, in consultation with the Investment Panel.
 - b. For assets managed within Brunel, deciding and instructing the allocation to each Brunel portfolio.
4. Implement the strategic risk management objectives of the Fund and take necessary action to ensure delivery of strategic outcomes. Ongoing consideration of these issues will be undertaken by the Funding and Risk Management Group (see section 6) who will report decisions and ongoing considerations to the Investment Panel.
5. Rebalancing the investment assets to target strategic allocations, when deemed prudent to do so, taking account of tactical allocations approved by the Investment Panel.
6. Representing the Fund on the Brunel Client Group to develop Brunel investment strategies and policies which effectively support the interests of the Fund.
7. Commissioning Elective Services from BPP Ltd and issuing instructions as permitted by the Brunel Service Agreement to BPP Ltd.
8. The appointment of specialist advisors to support the Committee and Officers in discharging their functions.
9. Determining policies that support the investment and funding strategies having taken expert advice.
10. In consultation with the Chair of the Committee, the Head of Pensions will approve the draft Statement of Accounts and Annual Report for audit.
11. Authorising expenditure from the Fund in accordance with the annual budget.



12. Admitting new admitted bodies into the Fund subject to them meeting Fund policy.
13. The Director of One West & APF has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).
14. The Director of One West & APF has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount.
15. Under its wider delegated powers, the Director of One West & APF has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
16. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.
17. Decisions regarding the Local Impact Portfolio Framework are delegated to The Head of Pensions in conjunction with the working group. The Working Group will consist of at least 3 Panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group Manager Investments and the Investments Manager. The formal decision is taken by the Head of Pensions as an Officer Decision Report via the democratic reporting processes within Bath and North East Somerset Council.

(6) FUNDING AND RISK MANAGEMENT GROUP

Committee Scope

The Funding and Risk Management Group (FRMG) is a group of Avon Pension Fund officers and specialist advisors whose role is to consider in greater detail all strategic and operational aspects of the Risk Management Strategies.

Functions

In addition, it has specific delegated authority as follows:

1. Agree the operational structures to meet the strategic objectives determined by the Avon Pension Committee
2. Make changes to the structures as needed to ensure strategic outcomes continue to be achieved or to manage emerging risk
3. Implement the strategies including
 - a. Counterparty selection
 - b. Trigger frameworks
 - c. Collateral arrangements
 - d. Setting benchmarks



4. Determine the framework for monitoring the strategies and reporting to Panel & Committee

Composition

The Group will consist of the following:

From the Avon Pension Fund:

- Head of Pensions
- Group Manager, Funding, Investments and Risk
- Investment Manager
- Senior Investments Officer
- Other Fund Officers as required (for example Funding Manager, Governance & Risk Advisor)

Advisors

- Investment Consultant or deputy
- Risk Consultant or deputy
- Scheme Actuary or deputy
- Investment Manager as required

Quorum

FRMG shall be quorate if the following are in attendance:

- 2 Pension Fund Officers one of which must be the Head of Pensions or Group Manager, Funding, Investments and Risk
- Risk Consultant or deputy
- Investment Consultant or Scheme Actuary

Meeting Arrangements

FRMG will meet as and when required as determined by the Head of Pensions/Group Manager, Funding, Investments and Risk, but at a minimum quarterly. Meetings will be virtual.

Meetings will be chaired by the Head of Pensions or Group Manager, Funding, Investments and Risk. Key discussion and action points will be recorded, and minutes will be circulated to the Investment Panel. The group will also update the Panel at the following meeting.

Number	Function	Risk	Impact	Pre Mitigants			Mitigating Actions / Control Framework	Post Mitigants			
				Impact	Likelihood	Score		Impact	Likelihood	Score	Trend
NR06	Governance	Cyber attack	Fund is unable to operate Members do not receive pension payment on time	Critical	Almost Certain	25	- Disaster recovery plan in place - Business continuity plan - B&NES cyber security policy and system defence - Implementation of recent internal cyber audit findings	Critical	likely	20	→
NR01	Admin	Ability to deliver service to agreed standards	Poor member outcomes and/or breach of regulations	Critical	Almost Certain	25	- KPIs & complaints monitored and acted on - Plans to digitise will improve self-serve & operations efficiency - Actions to improve staff recruitment & retention - Process improvements being identified and implemented Review of Top 10 Process Controls	High	Likely	16	→
NR04	Governance	Governance of Fund not in accordance with APF policies Controls not adequate	Fines for non-compliance Disciplinary issues and reputational risk	High	Almost Certain	20	- Internal Audit is undertaking a review of the Fund's controls which we will implement during Q1 2024 - We have initiated a new project to correct errors in annual pension increments	High	Likely	16	→
NR18	Comms	Unforeseen events or service issues leads to reputational damage to the Fund amongst its stakeholders	Complaints Detrimental media coverage Loss of stakeholder confidence	High	Likely	16	- Regular communications to stakeholders; emergency communication possible through website and email - Press/media enquiries and issues dealt with in accordance to B&NES policy - Workshops and meetings held for current topics to gain stakeholder input - Contracts in place with legal advisors and PR professionals - Media monitoring undertaken	Medium	Likely	12	↑
NR02	Regs	Regulatory changes	Breach of regulations Poor member outcomes Increased workloads for officers Changes to pooling could undermine delivery of investment strategy	High	Likely	16	- Regulatory changes monitored via LGA and professional advisors - Officers attend SWAPOG/Tech Group - Regulatory projects included in service plans - Officers respond to consultations	Medium	Likely	12	→
NR05	Governance	Failure to manage personal data per regulations	Personal data corrupted, compromised or illegally shared Fines and reputational damage	Critical	Almost Certain	25	- One West is Data Protection Officer for Fund and advises on data protection matters - Record of processing and privacy notice set out how data is managed - Processes reviewed as a result of data breaches - Regular officer training - Data sharing/transfer agreements and DPIAs implemented for all relevant projects	High	Possible	12	→
NR10	Investments	Failure to earn investment returns	Scheme cannot meet liabilities and employer contributions could rise	Critical	Likely	20	- Diversified asset allocation - Professional and independent investment advice - Risk management strategy supports funding strategy - FRMG & Investment Panel monitor performance and risk - Periodic strategic investment review	High	Possible	12	→
NR11	Investments	Brunel fails to deliver client objectives regarding service delivery	Affects Fund's ability to achieve investment objectives	Critical	Possible	15	- Brunel governance framework for strategic and operational decision making - Robust performance reporting - Avon-Brunel working group (internal)	High	Possible	12	→
NR12	Investments	Failure to achieve decarbonisation targets	Government climate policies not moving fast enough or sufficiently enforced Significant reputational and financial risks to value of investments	Critical	Almost Certain	25	- Climate exposure assessed annually - climate risk analysis embedded into strategic decisions - Net Zero target of 2045 - by 2030 will divest from high emission companies that are not aligning to NZ - targets to reduce emissions by 2025 and 2030 - programme to engage with companies and policymakers - Brunel's comprehensive climate change policy and approach to investing underpins each portfolio	Medium	Likely	12	→
NR08	Employers Funding	Employers unable to meet financial obligations to Fund	Financial cost to other employers in the Fund	High	Likely	16	- Policies on employer financial stability set out in FSS & ISS - Strong covenant management and information gathering processes - Quarterly review and mitigating action	Medium	Possible	9	↑
NR07	Employers Data	Employers do not comply with regulatory responsibilities	Poor member data Fines and greater scrutiny by TPR Employer liabilities incorrect if data is incorrect.	Critical	Likely	20	- Management of employers set out in admin strategy/MOU - Employer KPIs recorded and monitored vs TPR standards - Employer training - Reconciliation of Iconnect & Accounts in regards to contributions and data provided	Medium	Possible	9	→

NR09	Investments	Operational risks of investment managers, custodian and other investment suppliers	Loss of assets Inability to trade is assets inaccessible	High	Possible	12	<ul style="list-style-type: none"> - Due diligence and audits of service providers, managers - Controls embedded in investment management agreements - Diversification across different asset managers - Quarterly service & risk review with Brunel and suppliers 	Medium	Possible	9	→
NR14	Investments	An increase in leverage materially reduces capital value leading to an unplanned and significant deviation in strategic asset allocation	LDI strategy may have to be unwound if insufficient collateral Inability to raise hedge ratio	High	Likely	16	<ul style="list-style-type: none"> - Maintain collateral at prudent level with materia buffer vs risks - Set hedge ratio at level that can be adeqautely collateralised - Auto pause when LDI hedge ratio hits 40% - Offsetting nature of synthetic equity and equity protection strategies dampens leverage requirements 	High	Unlikely	8	→
NR16	Finance	Cashflow profile is maturing	Not enough cash in bank to meet pension payments	Critical	Almost Certain	25	<ul style="list-style-type: none"> - Monthly monitoring & forecast of cashflow - Prudent cash buffer - Tradeable assets can be swiftly sold 	High	Unlikely	8	→
NR03	Governance	Pension Committee cannot operate effectively	Delays in decision making for the Fund Failure to meet MIFID & TPR regulations	Medium	Almost Certain	15	<ul style="list-style-type: none"> - Representation of PC set out in Fund's representation policy - Knowledge requirements in Training policy - Compliance vs regulations defined in Compliance Statement - Decisions responsibilities set out in decision matrix 	Medium	Unlikely	6	→
NR13	Investments	Treasury investments	Loss of capital or income on cash Delayed return of principle or investment income	Medium	Possible	9	<ul style="list-style-type: none"> - Adopt B&NES Treasury management policy - Due diligene on banks - Diversification across multiple suppliers - Consultation with treasury management advisors 	Medium	Unlikely	6	→
NR17	Finance	Late / incorrect contributions from employers	Cashflow shortfalls Employer funding Deficits / Default TPR breach	Medium	Possible	9	<ul style="list-style-type: none"> - Monthly reconciliations of contributions - Management reviews and action - Mercer funding monitor tool - Larger employers pre pay contributions 	Low	Possible	6	→

CURRENT RISKS - SUMMARY

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

RISK FRAMEWORK

		Rare	Unlikely	Possible	Likely	Almost Certain
Critical	5	10	15	20	25	
High	4	8	12	16	20	
Medium	3	6	9	12	15	
Low	2	4	6	8	10	
Negligible	1	2	3	4	5	

ASSESSMENT OF LIKELIHOOD

1	Rare	0 – 5% probability
2	Unlikely	6 – 20% probability
3	Possible	21 – 50% probability
4	Likely	51 – 80% probability
5	Almost Certain	81 – 100% probability

ASSESSMENT OF IMPACT

		Service/ Operational	Assets	Legal Obligations	Project	Duty of Care – Clients & Staff
1	Negligible	Minimal disruption not impacting on an important service which can be resolved	Capital loss potential up to 1% of assets	Litigation, claims or fines Services up to £10k Corporate £25k	Minimal impact on APF delay < 1 month	Minimal or no impact on Services Duty of Care requirements.
2	Low	Brief disruption of important service /service area	Capital loss potential up to 5% of assets	Litigation, claims or fines Services up to £25k Corporate £50k	Some impact on APF delay < 3 months	Consideration required re. Duty of Care unlikely to have adverse impact meeting overall requirements.
3	Medium	Major effect to an important service area	Capital loss potential up to 15% of assets	Litigation, claims or fines Services up to £50k Corporate £100k	Adverse impact on APF significant slippage > 3 months	Duty of Care issues may have impact meeting requirements.
4	High	Complete loss of an important service area	Capital loss potential up to 25% of assets	Litigation, claims or fines Services up to £125k Corporate £250k	Significant impact on APF major delay of 6+ months	Significant impact on meeting Duty of Care responsibilities.
5	Critical	Major loss of whole service	Capital loss potential > 25% of assets	Litigation, claims or fines Services up to £250k Corporate £500k	Complete failure of project extreme delay > 12 months	Not meeting legal responsibilities placing individuals at risk.

Appendix 4

Committee Workplan	Mar-24	Jun-24	Sep-24	Dec-24
Governance				
Pension Board minutes				
Governance Update (workplans)				
Review of Risk Register				
Annual review of risk register				
Roles & Responsibilities of the Committee, Governance Compliance Statement				
Internal Audit Plan & Reports				
Approval of Committee's Annual Report to council & PB Annual Report for noting				
Update on Legislation				
Annual audit review				
Approval of Under & Overpayments policy				
Administration & Budget				
Administration – performance indicators				
Budget & Cash flow Monitoring (as needed)				
Budget and Service Plan				
Treasury management Policy				
Review of Admin Strategy				
Investments & Funding				
Approve Investment Strategy Statement				
Review of Investment Strategy & Performance				
Brunel - Overview of Stewardship activities / Corporate update (presentation by Brunel)				
Annual Responsible Investing Report				
Climate Change & progress on net zero targets				
Annual Review of Risk Management Strategies				
Interim valuation Results				
Section 13				
Approve Treasury Management policy				

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Appendix 5
Committee Training Plan

Type of training	Date	Content	
Workshop	May/June	TPR General Code of Practice	
Workshop	October	Interim Valuation Results	
Workshop	November/December	Admin Strategy	
Workshop	TBA	Pensions Dashboard	

Hymans Learning Academy	Title of Module	Date to be completed	Time Commitment
Introduction	• An Introduction to LGPS Online Learning Academy	Jul-23	2 minutes
Module 1 – Committee Role and Pensions Legislation	• An Introduction to Pensions Legislation • An introduction to Pensions Legislation - The Role of a Councillor	Jul-23	27 minutes
Module 2 – Pensions Governance	• LGPS Oversight Bodies – DLUHC & GAD • LGPS Oversight Bodies – TPR • Business Planning • LGPS Governance	Aug-23	50 minutes
Module 3 – Pensions Administration	• Introduction to Administration • Additional Voluntary Contributions • Policies and Procedures	Sep-23	51 minutes
Module 4 – Pensions Accounting and Audit Standards	• Pensions Accounting and Audit Standards	Sep-23	11 minutes
Module 5 – Procurement and Relationship Management	• Public Procurement	Sep-23	11 minutes
Module 6 – Investment Performance and Risk Management	• Introduction to Investment Strategy • LGPS Investment Pooling • Performance Monitoring • Responsible Investment	Dec-23	48 minutes
Module 7 – Financial Markets and Product Knowledge	• Introduction to Financial Markets and Product Knowledge • Investment – MiFiD II	Dec-23	33 minutes
Module 8 – Actuarial Methods, Standards and Practices	• Introduction to Funding Strategy • LGPS Actuarial Valuations – Process • LGPS Valuation – Technical • Employers	Mar-24	53 minutes
Current Issues	• Understanding McCloud • Pensions Dashboards • Understanding Goodwin • Introduction to Cyber Risk • GAD Section 13 • Climate Change and TCFD • McCloud Consultation • SAB and HM Treasury Cost Cap Mechanisms • Next Steps on Investment (England & Wales) Consultation Overview • Next Steps on Investment (England & Wales) Consultation Response • A Brief Introduction to Taskforce on Nature-related Financial Disclosures	Ongoing	

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