

Minutes of the Meeting held

Friday, 20th September, 2024, 10.00 am

Bath and North East Somerset Councillors: Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Toby Simon, Chris Dando (via Teams and therefore not able to vote) and Joanna Wright

Co-opted Voting Members: Councillor Mike Drew (South Gloucestershire Council), Councillor Robert Payne (North Somerset Council), Wendy Weston (Trade Unions), Pauline Gordon (Independent Member), John Finch (Independent Member - via Teams and therefore not able to vote) and Jackie Peel (Independent Member)

Advisors: Steve Turner (Mercer)

Also in attendance: Nick Dixon (Head of Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Carolyn Morgan (Governance and Risk Advisor), Nicky Russell (Technical & Compliance Advisor), Jeff Wring (Director of One West & Avon Pension Fund), Claire Newbery (Pensions Operations Manager) and Viki Merrill (Data Control Team Leader)

16 EMERGENCY EVACUATION PROCEDURE

In the initial absence of the Chair of the Committee it was agreed that Councillor Joanna Wright would act as the Chair. She asked the Democratic Services Officer to announce the emergency evacuation procedure.

17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Councillor Kate Kelliher, Councillor Fi Hance, William Liew and Charles Gerrish had all sent their apologies to the Committee.

Councillor Chris Dando and John Finch were attending the meeting remotely via Teams.

18 DECLARATIONS OF INTEREST

There were none.

19 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

21 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

22 MINUTES: 28TH JUNE 2024 (PUBLIC & EXEMPT)

The Committee **RESOLVED** that the minutes of the meeting on 28th June 2024 be confirmed as a correct record and signed by the Chair.

23 PENSION BOARD - MINUTES: 4TH SEPTEMBER 2024

The Committee **RESOLVED** to note the minutes of the Board meeting held on 4th September 2024.

24 2024 ANNUAL RESPONSIBLE INVESTMENT REPORT

The Group Manager for Funding, Investment & Risk introduced the report to the Committee. She thanked the Investments Manager and the Senior Investments Officer for their work on this subject and in compiling the report.

She gave the Committee a presentation. A summary of the main points are set out below and a copy of it will be attached as an online appendix to these minutes.

2023 Responsible Investing Annual Report Recap

- Significant changes to the Fund's responsible investment strategy took place in 2023, with a particular focus on climate change - "We commit to be Net Zero on financed emissions by 2045 across the whole Fund."
- To help achieve this, we have set clear interim targets:
 - 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 the carbon intensity of its listed equity portfolios by 43% by 2025 and 69% by 2030 (verses 2019 baseline).

Responsible Investing Annual Report 2024

The 2024 report:

- Focuses on key areas where we have seen increased stakeholder interest and faced challenge through the year e.g. investing in conflict affected regions, sustainability in supply chains and local investment
- Progress on climate targets
- High profile engagement examples
- Introduces forward look section to help readership get a sense of what the Fund will be focusing on next year.

Net Zero 20245 - Climate Metrics & Monitoring

- Listed equity portfolio has delivered a 63% reduction in absolute emissions verses 2019 baseline year.
- Ahead of interim decarbonisation targets of -43% by 2025 and -69% by 2030.
- Going forward, reductions will be harder to achieve and will be driven by efficiency gains.

Private Markets – Renewables

- Total Fund investments in sustainable infrastructure totalled just under £500m.
- Well diversified portfolio across asset classes and investment funds.
- Investments span established renewable assets:
 - £165m invested in solar (across GIF, Secured Income, Brunel renewable infrastructure & Wessex gardens)
 - £120m invested in wind

Wendy Weston asked why there currently was a lack of investment in Hydro.

The Group Manager for Funding, Investment & Risk replied that it hasn't been an area of investment that has been highlighted by any of our managers. She added that it was an area that would likely need substantial capital investment and that a view on this should be sought from Brunel.

The Head of Pensions added that the bulk of the Fund's renewables investment has been in the UK and Europe, where there were limited new hydro investment opportunities.

Councillor Robert Payne referred to page 52 of the agenda pack and asked if an explanation could be given as to what is covered by the term 'Other' in the chart.

The Group Manager for Funding, Investment & Risk replied that this covered areas such as providing energy to data warehouses and greenhouses using waste power, among many different projects. She added that it was a very broad variety of asset, difficult to define.

Councillor Mike Drew asked if any investment into research regarding renewables was taking place by the Fund.

The Group Manager for Funding, Investment & Risk replied that this would occur to some extent through listed equities and bonds, but the Fund does not directly invest to universities for example to carry out research.

Local Impact Portfolio – New for 2024

- In 2023 we agreed to invest £170m into a Local Impact portfolio, initially comprising three core pillars:
 - Renewable Infrastructure (£50m)
 - Affordable Housing (£50m)
 - SME (Small and medium-sized enterprises) Funding (£10-30m)
- Wessex Gardens – £50m commitment
 - £330m invested in 17 local solar assets (Avon £35m), 8% projected return
 - Contracted inflation linked revenues for 15+ years
 - Uplift in valuation (from £232m to £245m) reflecting below market acquisition price
- Octopus Affordable Housing Fund - £50m commitment
 1. Co-invest structure which includes £10m Avon sleeve
 2. Will fund around 250 new homes for up to 1,000 people
- Currently reviewing SME Funding managers

Councillor Joanna Wright asked if the new homes planned would be truly affordable and would the work be affected by National Planning Policy.

The Group Manager for Funding, Investment & Risk replied that there was a key worker / low-income family focus for the planned homes. She added that the Council has put Octopus in touch with local housing developers and that they should all be aware of any Government plans / policies.

Councillor Shaun Stephenson-McGall asked if there was a timeline for the delivery of the 250 new homes.

The Group Manager for Funding, Investment & Risk replied that they were hopeful of delivery in the next three years.

Councillor Joanna Wright asked if Octopus could attend a future meeting and provide us with a briefing as the issue of affordable / social housing was so important.

The Group Manager for Funding, Investment & Risk replied that this was a good idea and they could look to schedule something for the early part of 2025.

Stewardship

- 2023/24: 88% of material sectors' financed emissions aligned or under active engagement.
- Engagement and active ownership are central to the Fund's approach to ESG

- The report includes numerous case studies that demonstrates active engagement from both Brunel and EOS throughout the year

Councillor Shaun Stephenson-McGall asked if in the 2025 Annual Report there could be further information relating to the sectors that are aligned or under active engagement.

The Group Manager for Funding, Investment & Risk replied that she would take that suggestion away for consideration.

Councillor Toby Simon stated that he had recently spoken at the Liberal Democrat Conference on the importance of energy transition and asked what metrics were available in that respect.

The Group Manager for Funding, Investment & Risk replied that this was currently difficult to gather data on energy transition and that the Local Authority Pension Fund Forum (LAPFF) and Brunel were working on how to address this.

Natural Capital – New for 2024

- During 2024/5 the Fund will build on its existing natural capital investments, by making a dedicated allocation between £100-150m
- Next steps:
 - Significant interest across several Brunel partner funds
 - Implementation options currently being explored via Brunel
 - Fund undertaking training session with Panel in November to discuss viable options / preferred asset classes.

The Committee **RESOLVED** to:

- i) Approve the Draft 2024 Annual Responsible Investment Report for publication.
- ii) Agree the 2025 RI priorities as set out in section 4.4.

25 EMPLOYER EXIT

At the beginning of this item Councillor Paul Crossley resumed the role of Chair of the Committee.

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

26 PENSION FUND ADMINISTRATION - OVERVIEW & SUMMARY PERFORMANCE REPORT

The Pensions Operations Manager introduced the report to the Committee and the following points were highlighted from it.

McCloud: Moving forward slowly following recent software issues.

Year End: Late data received from some employers. Seek to avoid fines where possible and provide training opportunities.

Restructure update

- New structure in place with effect from 1st August
- All Ring-fenced officers got their first choice of roles
- Recruitment into new structure & new roles – Q3-Q4
- Movement of work and responsibilities – Q3

Wendy Weston asked if any redundancies were made as a result of the restructure.

The Pensions Operations Manager replied that two positions have been deleted, leading to 1 resignation and 1 notice being given.

The Head of Pensions added that a process was ongoing to see if a possible new role could be established for the person who has been given notice.

Q1 and beyond – what's been happening

- Permanent team leaders appointed
- Training – new and existing officers
- Continued focus us on backlogs
- Temporary “retirement team”

SLA monthly performance average July 23 – 18th August 24

- Many more areas turning green
- Team is focussed and working hard

KPI cases completed as % July & August 24

- Overall picture is improving

The Pensions Operation Manager commented that, as suggested by the Chair of the Pension Board, officers will input a cumulative ‘Green’ column to this slide for future reports.

Wendy Weston asked if she was happy with the recruitment that had taken place so far.

The Pensions Operation Manager replied that she was and that the additional officers have enabled resources to be available across all teams.

Service performance – plan v's actual – August 24

- 14% ahead of our current target

Pensions Increase Update

The Technical & Compliance Advisor highlighted the following areas from the report.

Phase 2

- 39 cases have been manually calculated, with arrears / interest paid in July and August 2024.
- 95 cases are going through the bulk remediation process and will have the arrears / interest paid in September 2024.
- 68 cases have been reviewed and no further remediation is due.
- Total = 202 completed

Phase 2 – What's in progress

- 11 suspended child pensions have had arrears calculated. Dependants have been written to for current bank details.
- 39 death cases have been reviewed and arrears are being calculated.
- 10 cases are currently in checking
- Total = 60 in progress

Phase 2 – What's left

- 142 pensions suspended from outset (Member tracing) – These members are being traced and this population will be removed from the project as they are not a pension increase issue. These will be owned and dealt with as part of the normal tracing process.
- 94 GMP cases. These are complex cases and will require manual calculation and resolution.
- 11 Payroll cases – Once payroll queries are resolved, increases will need to be calculated.
- Total = 247 – 142 = 105 to action

The Head of Pensions said that a figure of £1.5m had been assigned as financial provision regarding the Pensions Increase and that he expected to be well within that figure at the completion of the work.

Councillor Joanna Wright said that it was good to see the improvements made and knowledge in place across the teams and asked how this would be maintained.

The Pensions Operation Manager replied that there is now a Training Team in place and that only one version of the training manuals are to be in place. She added that annual reviews of the training will be held.

Pensions Dashboard

The Pensions Operation Manager highlighted the following areas from the report.

What is the Pensions Dashboard?

- The Government's aim is that online Pensions Dashboards will match users with all their pensions yet to be brought into payment, in one place and in a secure way.
- Their personal details will be verified within a complex "ecosystem" and details of their schemes and pension benefits will be fed back and available to view on a dashboard.
- The data will be presented in a simple and understandable way.

Councillor Mike Drew asked where all the data would be stored.

The Data Control Team Leader replied that it would be stored in the Cloud by the Integrated Service Provider.

Councillor Joanna Wright commented that she was worried about the storage of this data.

The Pensions Operation Manager replied that it is the role of the Integrated Service Provider to oversee any security issues and to make sure that this information is locked down. She added that this is a paramount issue for the Fund and that an Integrated Service Provider had yet to be chosen.

Councillor Wright said that she felt that the Council should write to the Government to set out the costs involved in this process.

The Head of Pensions said that he shares the sentiment, but felt that all parties were too advanced into the journey.

Councillor Shaun Stephenson-McGall suggested that a briefing be held with all local MPs so that concerns are able to be shared.

DWP Connection Deadline dates

- All Public Service Pension Schemes must be connected by 31st October 2025.
- Implementation planned between June – October 2025

Nick Weaver, Chair of the Pension Board said that he was concerned that the project will take longer than planned and that the Government would change their deadlines at the very last minute.

The Pension Regulator (TPR) Guidance

- TPR will be responsible for ensuring we comply with the duties of the dashboard.

- We must be able to evidence:
 - Having regard for our “connect by” date
 - Appropriate Governance, processes and systems in place
 - Key decisions and progress recorded

TPR Guidance – what must we be doing now?

- Decide how to connect –
 - Review options
 - Current provider / Integrated Service Provider / Build your own
- Data Accuracy
 - Review your data to ensure:
 - We can match members with their pension
 - Return accurate data values

TPR Compliance & Enforcement approach

- Principle based
- Data led
- Will have a range of powers
- Will be pragmatic but robust where they see intentional non-compliance

Pensions Administration Standards Association (PASA) Guidance

- Key pillars which need to be addressed to achieve connection readiness.
 - Governance
 - Matching
 - Pensions Values
 - Technology
 - Administration

APF – Governance readiness

- Appointed a Project Manager
- Project plan for delivery and connection
- Education of Management team
- Next steps:
 - Ongoing monitoring of progress & compliance
 - Ongoing communication with officers, employers, Board & Committee
 - Delivery ISP and connect October 2025

The Committee **RESOLVED** to note the service performance for the period ending 30th June 2024 and the presentations that were delivered to them.

27 LEGISLATION UPDATE

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

Pensions Review /Pension Schemes Bill

- In July 2024, following announcement of a Pension Schemes Bill in the King's Speech, the Government issued a press release announcing the launch of landmark pensions review. The release included reference as to how to "unlock the investment potential of the £360 billion LGPS" and "tackle the £2 billion that is being spent on fees". Mandatory pooling and benefits of further consolidation will also be considered. The Terms of Reference for Phase One of the review were released in August and will focus on investment.
- These updates, and the impact on the Fund, will be considered further by the investment team as the position develops and any recommendations emerge.

McCloud Judgement

- MHCLG issued a short consultation in June 2024 to relevant stakeholders in relation to the issuing of Annual Benefit Statements (ABSs) in 2023/24 and 2024/25 and the inclusion of information relating to the underpin. The consultation contained draft regulations that would mean administering authorities would not need to include underpin information in the 2023/24 ABSs in line with the original government response to the 2020 consultation. The consultation also sought views on whether the above change would extend to the 2024/25 ABSs too but on a discretionary basis only.
- MHCLG laid the LGPS (Information) Regulations on 28 August 2024 thereby removing the requirement to include estimated underpin information in the 2023/24 statements (and thereby removing the need to report a breach of law to the Regulator).
- The ABSs issued by the team in August 2024 did not include estimated information relating to the underpin. Whilst the regulatory change removes the need to report a breach to TPR, further consideration will be needed in the lead up to the 2025 exercise whether to exclude the underpin on a discretionary basis for some members. Further guidance is now awaited.

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

28 RISK MANAGEMENT PROCESS & RISK REGISTER

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

The quarterly review of the risk register has taken place and there have been a few changes made to the risks and their scores as follows:

- Risk NR07 (Employers data) has increased from a possible post-mitigation likelihood to likely to reflect the need for more focus on employer training.
- Risk NR02 (Regulatory change) has been decreased post-mitigation from likely to a possible likelihood. This reflects the strong mitigants in place with no major changes in regulations on the horizon that we haven't already planned for.

Other changes that have been made are:

- Risk NR19 (Pensions Reform Bill)) is a new risk which has been introduced to recognise the uncertainty around the Government's potential plans to restructure LGPS funds and pools. There is limited mitigating actions Funds can take but we recognise that the risk could create increased workload and cause possible staff retention issues particularly in the Pools. The reference to pooling has now been removed as an impact from risk NR02 as it is now covered by this new risk.
- Risk NR18 (Reputational damage) has been removed and it's impacts now contained within risk NR04 which is now "Significant errors arising from poor controls".
- The reference to pooling has now been removed from risk NR02's impact as it is now covered by the new NR19 risk.
- The wording for risk NR01 has changed to "Poor service levels below agreed standards".
- The wording for risk NR10 has changed to "Failure to earn investment returns as per Funding Strategy".

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

29 GOVERNANCE UPDATE

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

Hyman's LGPS Online Learning Academy (LOLA)

The SAB's Good Governance Review & TPR's General Code of Practice include additional knowledge and skills requirements for Committee, Pension Board and Officers. Hyman's Robertson have been working with the SAB to develop these requirements and have produced an LGPS Online Learning Academy (LOLA).

The full timetable for completion of all modules is contained in Appendix 2.

Workshops

26th September 2024 - TPR General Code of Practice
24th October 2024 - Interim Valuation Results

The Governance & Risk Advisor informed the Committee that they were in the final stages of completing the Committee’s Annual Report to Council. She said that it would be shared with members in October ahead of the Council meeting on 21st November.

Jackie Peel asked if the 2025 dates for the Investment Panel could be included in the next report.

The Governance & Risk Advisor replied that she would make this addition.

The Committee **RESOLVED** to:

- i) Note the Committee workplan & training programme
- ii) Note the service plan monitoring.

The meeting ended at 12.18 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

APF Investment Committee

Responsible Investment Annual Report 2024



2023 Responsible Investing Annual Report Recap



- Significant changes to the Fund’s responsible investment strategy took place in 2023, with a particular focus on climate change

“We commit to be Net Zero on financed emissions by 2045 across the whole Fund.”

- To help achieve this, we have set clear interim targets:
 - **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 the carbon intensity of its listed equity portfolios by 43% by 2025 and 69% by 2030 (verses 2019 baseline).**
 - **By 2030 the Fund will reduce the carbon intensity of its corporate bond portfolio by 60% (verses 2019 baseline).**
 - **For listed equities, we will ensure 70% of financed emissions in material sectors are either aligned, aligning or subject to direct or collective engagement by the end of 2024 and 90% by 2027.**

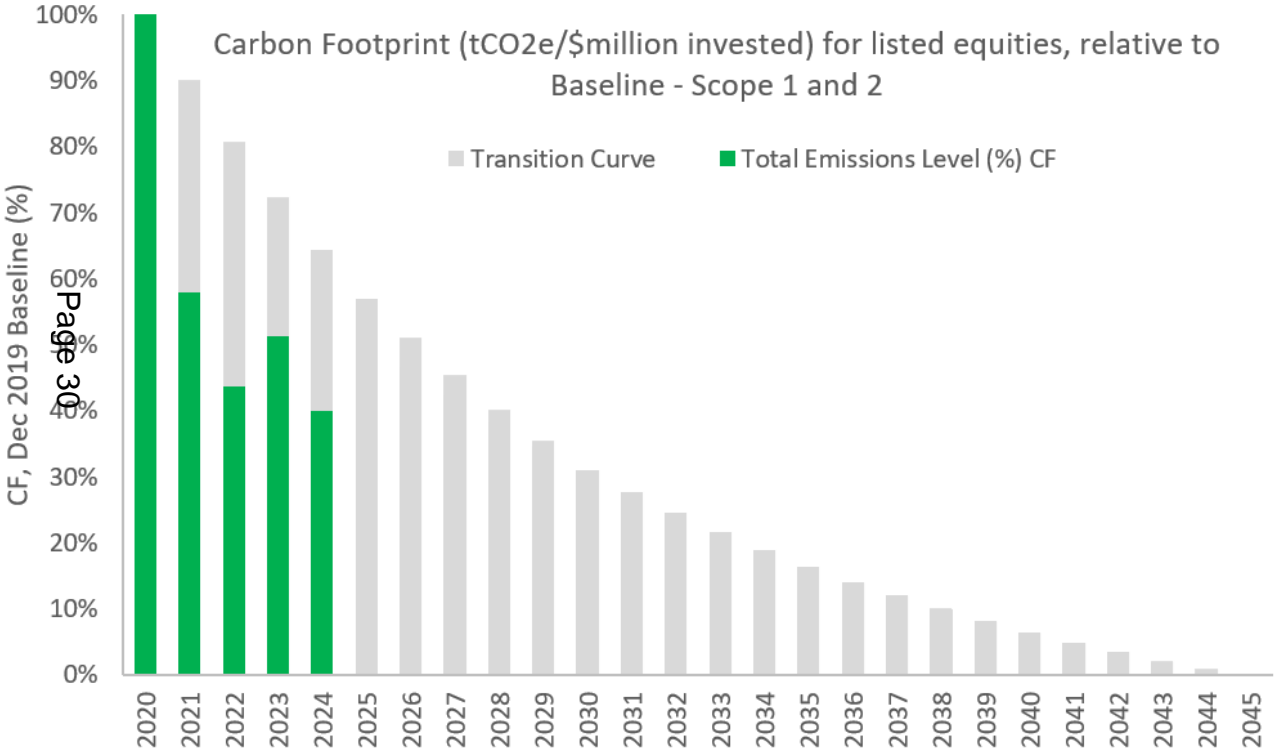
Responsible Investing Annual Report 2024



Building on the 2023 report, the 2024 report:

- Takes a features-based approach, less technical and lighter on governance to make the report more accessible to members
- Focuses on key areas where we have seen increased stakeholder interest and faced challenge through the year e.g. investing in conflict affected regions, sustainability in supply chains and local investment
- Progress on climate targets
- High profile engagement examples
- Introduces forward look section to help readership get a sense of what the Fund will be focusing on next year.

Net Zero 20245 - Climate Metrics & Monitoring

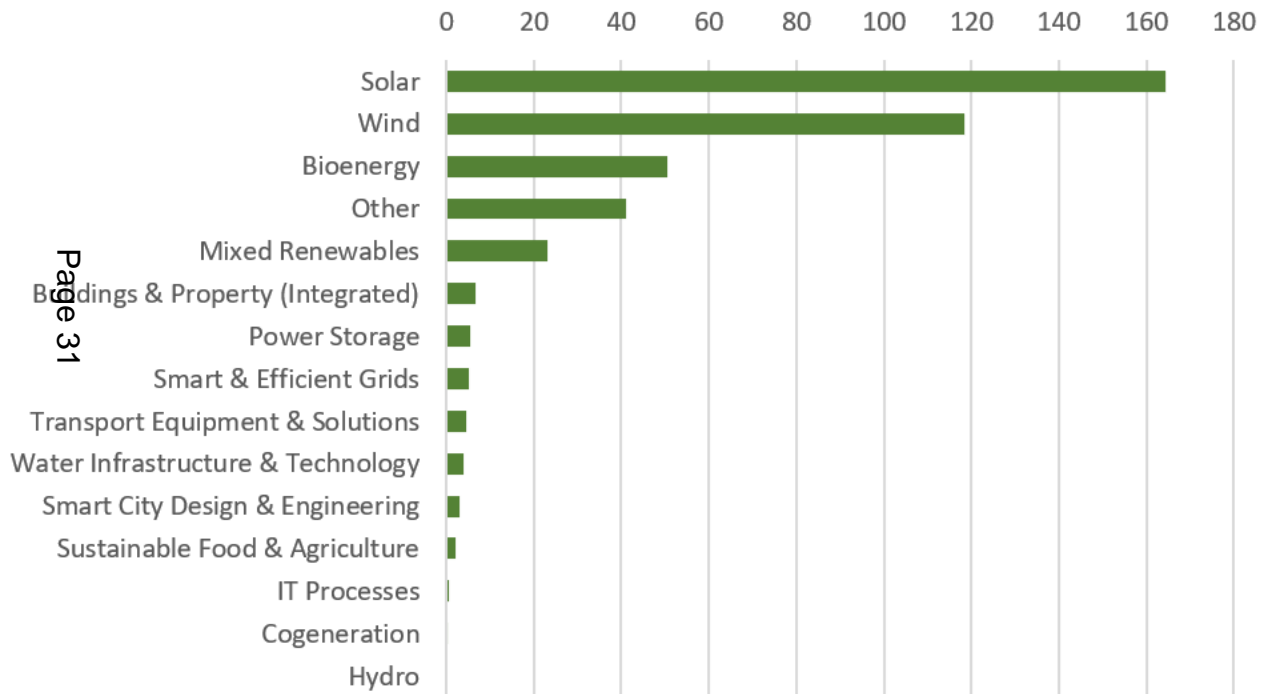


Source: Mercer

- Listed equity portfolio has delivered a 63% reduction in absolute emissions verses 2019 baseline year.
- Ahead of interim decarbonisation targets of -43% by 2025 and -69% by 2030.
- WACI - relative to the industry benchmark the aggregate portfolio is 34% more efficient (less carbon intensive).
- Going forward, reductions will be harder to achieve and will be driven by efficiency gains
- The corporate bond portfolio has decreased by c. 48% relative to the 2019/20 baseline. Hence, the Fund is currently ahead of the proposed decarbonisation pathway to achieve the interim reduction target of 60% by 2030.

Private Markets – Renewables

Capital Invested in Sustainable Infrastructure¹ (£'m)



- Total Fund investments in sustainable infrastructure totalled just under £500m
- Well diversified portfolio across asset classes and investment funds
- Investments span established renewable assets:
 - £165m invested in solar (across GIF, Secured Income, Brunel renewable infrastructure & Wessex gardens)
 - £120m invested in wind
- Energy transition assets – e.g. bioenergy, smart grids & power storage

Local Impact Portfolio – New for 2024

- In 2023 we agreed to invest £170m into a Local Impact portfolio, initially comprising three core pillars:

**Renewable
Infrastructure
(£50m)**

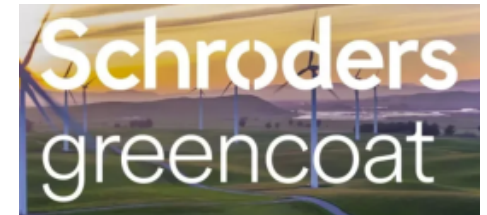
**Affordable
Housing
(£50m)**

**SME
Funding
(£10-30m)**

- Significant progress has been made so far in 2024, with £100m of capital already committed

1. Wessex Gardens – £50m commitment

- £330m invested in 17 local solar assets (Avon £35m), 8% projected return
- Contracted inflation linked revenues for 15+ years
- Uplift in valuation (from £232m to £245m) reflecting below market acquisition price
- Live pipeline to deploy remaining £15m which includes new build solar, batteries and geothermal



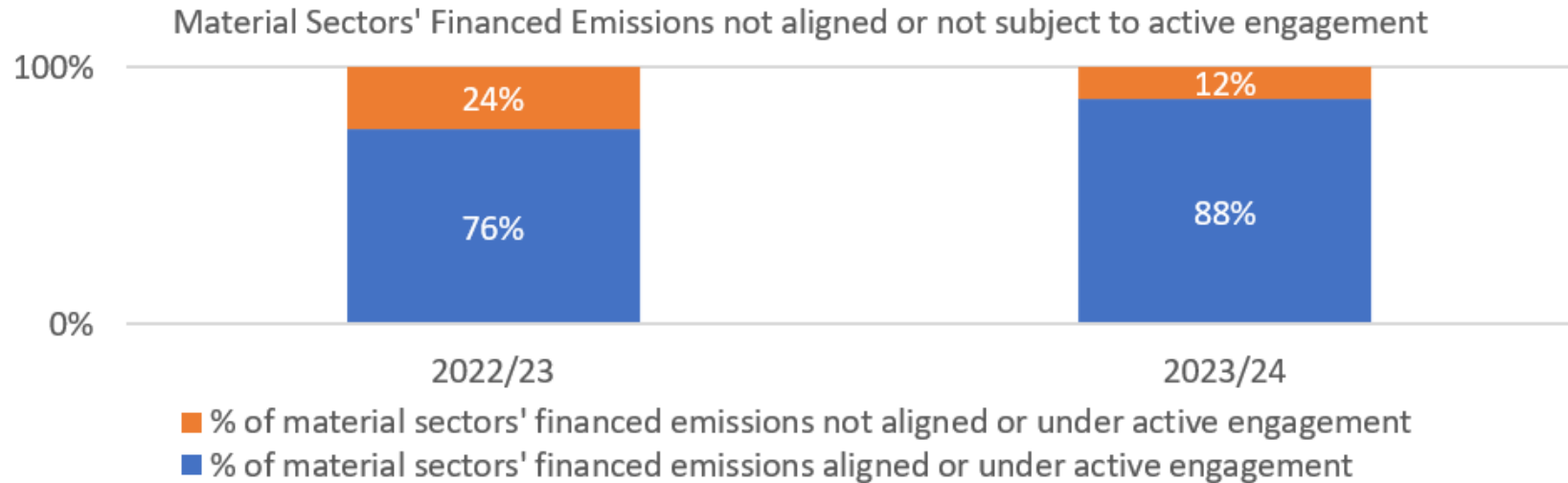
2. Octopus Affordable Housing Fund - £50m commitment

- Co-invest structure which includes £10m Avon sleeve
- Will fund around 250 new homes for up to 1,000 people

octopus real estate

3. Currently reviewing SME Funding managers

Stewardship



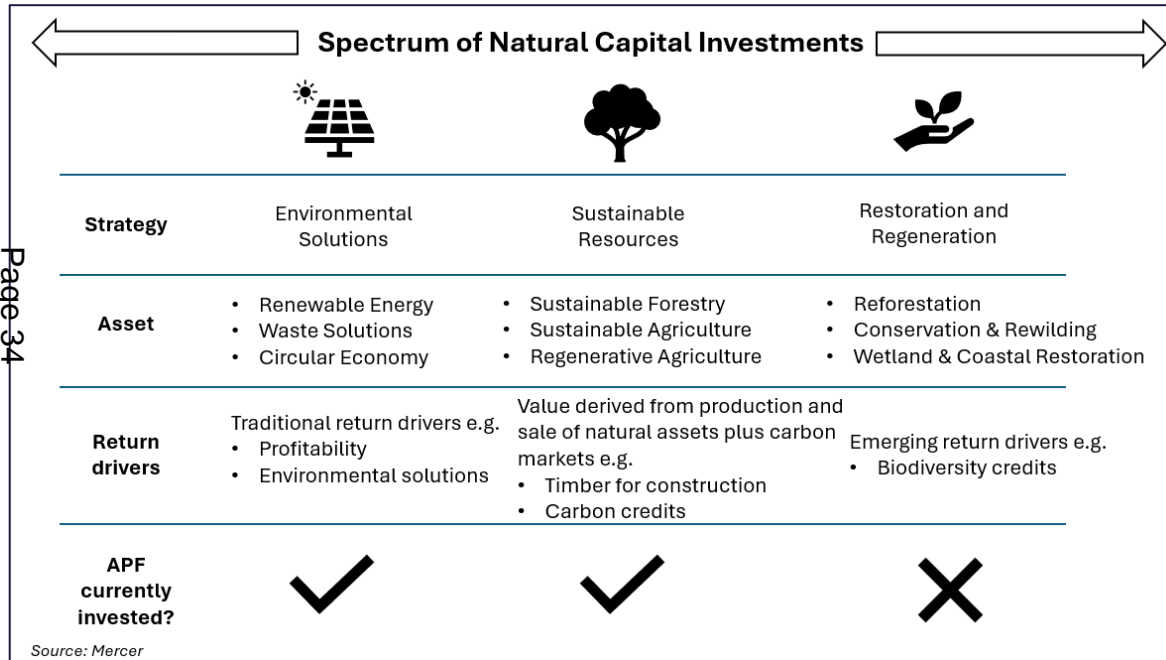
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- Engagement and active ownership are central to the Fund's approach to ESG
- The report includes numerous case studies that demonstrates active engagement from both Brunel and EOS throughout the year
- Our engagement is strengthened through membership to organisations such as:



Natural Capital – New for 2024

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- During 2024/5 the Fund will build on its existing natural capital investments, by making a dedicated allocation between £100-150m
- Next steps:
 - Significant interest across several Brunel partner funds
 - Implementation options currently being explored via Brunel
 - Fund undertaking training session with Panel in November to discuss viable options / preferred asset classes
- Case Study: Aurora Sustainable Lands (Brunel infrastructure portfolio)

APF Media Coverage

Avon Pension Fund makes
£50m affordable housing
investment

Investment will fund around 250 new homes
for up to 1,000 people

PROFESSIONAL
PENSIONS

Bath Business News
Online

Affordable housing move by West of
England pension fund as it looks to
invest more in local impact schemes

September 5, 2024

By Robert Buckland



Pension fund investing £50m to
boost affordable home supply



Pension funds to invest £230m in
South West solar farms

Avon Pension Fund invests £50m in affordable
housing

PENSIONSAge
The leading pensions magazine

North Somerset Council part of £230 million solar
investment

Weston
Mercury

Thank you



If you have any questions please contact:

Liz Woodyard

Rebecca Whelan

Avon
Pension
Fund



Your pension, your future