

**AVON PENSION FUND COMMITTEE**

**Minutes of the Meeting held**

Monday, 28th June, 2021, 9.15 am

**Bath and North East Somerset Councillors:** Paul Crossley (Chair), Shaun Stephenson-McGall (Vice-Chair), Bruce Shearn and Chris Dando

**Co-opted Voting Members:** Charles Gerrish (Academies)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Nathan Rollinson (Assistant Investments Manager), Geoff Cleak (Pensions Manager) and Carolyn Morgan (Governance and Risk Advisor)

**1 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer advised the meeting of the procedure.

**2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

The Chairman announced that this meeting was being held with only a quorum of the Committee due to ongoing social distancing measures resulting from Covid-19.

The Committee had held a briefing session on Friday 25<sup>th</sup> June for all members.

**3 DECLARATIONS OF INTEREST**

Councillor Shaun Stephenson-McGall declared an interest in agenda item 13 (Funding & Employer Update) as he is an employee of the University of Bath.

Charles Gerrish declared an interest in agenda item 13 (Funding & Employer Update) as Chairman of Aequus Developments Ltd and Trustee responsible for Finance for Youth Connect South West.

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

There was none.

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

Alasdair Yule, B&NES UNISON Branch Green Officer, addressed the Committee on behalf of B&NES UNISON Branch, Bristol UNISON Branch, North Somerset UNISON Branch, South Gloucestershire UNISON Branch, Bath Spa University UNISON, Bath University UNISON Branch and the University of the West of England UNISON Branch. A copy of his statement is attached as an online appendix to these minutes, a summary is set out below.

We commend the fund for the steps it has taken to account for climate change, including reducing the risk of stranded assets to the pensions of its members, and significant investments the fund is now making in low carbon infrastructure such as renewables.

However, we still have questions relating to the fund's engagement with the fossil fuel industry.

Firstly, your response has not disclosed the companies in which the fund invests are engaging in fossil fuel extraction and fossil fuel energy production.

- Please provide a list of these companies.

Secondly, we have concerns with how the fund is tracking progress traditional fossil fuel companies are making towards decarbonisation.

- Please provide details on the tracking process.

We understand the fund's 'net zero ambition' only concerns emissions from scope 1 and 2 but does not include scope 3 emissions. It therefore covers direct emissions from owned and controlled sources (scope 1), and indirect emissions from energy consumed but generated elsewhere (scope 2). It does not include indirect emissions from the value support chain, such as investments (scope 3).

If this is the case, the fund's Net Zero Ambition does not account for fossil fuel company investment in exploring and developing new future oil & gas fields.

We would like to put the following questions to the fund –

- Can the fund confirm which emissions types (scope 1, 2 and 3) are included in its net zero ambition?
- If scope 3 type emissions are not included in the fund's net zero ambition, would the fund consider updating their net zero ambition to include scope 3 emissions, thereby including investment companies are making in future oil and gas?

The Head of Business Finance & Pensions said that a written response to the questions and points raised would be supplied in due course.

The Chairman thanked Alasdair Yule for his statement on behalf of the Committee.

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

There were none.

## **7 MINUTES: 26TH MARCH 2021**

The minutes were approved as a correct record.

## **8 DRAFT PENSION BOARD MINUTES: 27TH MAY 2021**

The Committee noted the draft minutes of the Pension Board from their meeting that took place on May 27<sup>th</sup> 2021.

## **9 FUND GOVERNANCE FRAMEWORK**

The Governance & Risk Advisor introduced this item to the Committee. She explained that the report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

She added that the report also sets out a summary of the Scheme Advisory Board's (SAB) Good Governance Review and The Pension Regulator's (TPR) Single Code of Practice.

Charles Gerrish asked when members would be likely to receive training in relation to the outcomes of the Good Governance Review.

The Governance & Risk Advisor replied that discussions with Hymans were ongoing and that she expected training to be available within the next six months.

The Committee unanimously **RESOLVED** to:

- i) Note the roles and responsibilities of the members, advisors and officers
- ii) Approve the Terms of Reference of the Committee and Investment Panel
- iii) Approve the Scheme of Delegation
- iv) Approve the Governance Compliance Statement
- v) Agree the membership of the Investment Panel (Councillor Shaun Stephenson-McGall (Chair), Councillor Paul Crossley, Councillor Chris Dando, John Finch (Independent Member), Pauline Gordon (Independent Member) and Shirley Marsh-Hughes (Independent Member)
- vi) Agree independent member representation of the Brunel Working Group (Pauline Gordon)
- vii) Agree substitute of Brunel Oversight Board (Councillor Shaun Stephenson-McGall)
- viii) Agree the member(s) to represent the fund on the Local Authority Pension Fund Forum (Councillor Shaun Stephenson-McGall, Councillor Steve Pearce and Richard Orton)
- xi) Agree to delegate the drafting of the Annual Report to Council to Officers and the Chair (subject to informal consultation with Committee members prior to the Chair approving the report).

## 10 BRUNEL UPDATE

The Head of Business Finance & Pensions introduced this item to the Committee.

He explained that the last transition of our liquid/listed assets, the Multi Asset Credit Portfolio, is nearing completion and as a result, we will no longer report on the transition plan.

He said that the next stage of the governance review was now underway with proposed changes being considered by Client Group and legal officers.

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

## 11 ANNUAL REVIEW OF INVESTMENT STRATEGY & PERFORMANCE

The Investments Manager introduced this item to the Committee. He highlighted that the Fund published its fifth annual carbon metrics report which showed, among other things, that the Fund's listed equity portfolio was 30% more carbon efficient than the benchmark (on a Weighted Average Carbon Intensity basis).

He added that as an advocate for improved transparency in climate related disclosures the Fund committed to becoming an early adopter of the recommendations put forward by the Taskforce on Climate Related Financial Disclosures (TCFD) and that the Fund's first report will be published later in the year and will cover the 12 months to 31 March 2021. He said that the TCFD was supported by Brunel.

He referenced the following comments made at the Committee briefing.

- Due to the amount of capital allocated to renewable infrastructure opportunities, investors could potentially expect to see slightly lower returns from this asset class in the future relative to historical returns, noting however that the pipeline of opportunities under consideration in the Brunel portfolio remains strong.
- Plastics – A priority for the Fund. They, alongside 26 international investors, joined a collaborative engagement led by First Sentier Investment, with support from the Marine Conservation Society aimed at engaging 18 of the largest global manufacturers of washing machines to highlight the risk of micro plastic leakage and to champion technological advances to tackle the issue.
- China:
  - Valuation reliability
  - Social / Governance issues

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

## 12 INVESTMENT PANEL ACTIVITY

The Investments Manager introduced this item to the Committee. He informed them that the Panel had received a presentation from David Vickers, Chief Investment Officer, Brunel.

He highlighted that the Panel were informed of the plan to manage down the legacy assets, which were largely illiquid in nature.

The Committee **RESOLVED** to note:

- i) The information summarised in paragraph 4.1 and 4.2
- ii) The draft minutes of the Investment Panel meeting on 28 May at Appendix 1.

## 13 EMPLOYER COVENANT UPDATE

The Head of Business Finance & Pensions introduced this report to the Committee. He stated that with over 400 employers in the Fund resources are focused on employers who pose a risk to the current funding plans or a risk of default to the Fund.

He referenced the following comments made at the Committee briefing.

- No increase to funding levels for Academies – impact that this will have on resources for education

Councillor Chris Dando asked when members would be able to see the results of the interim valuation of the whole fund level referred to in section 3.1 of the report.

The Head of Business Finance & Pensions replied that this was likely to be towards the end of 2021.

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

## 14 UPDATE ON LEGISLATION

The Pensions Manager introduced this report to the Committee and highlighted some key items of interest.

### HMT Public Sector Exit Payments Cap

In April, MHCLG wrote to Chief Finance Officers of councils and combined authorities advising of the new requirement to provide data on exit payments which will be used to inform delivery of the Government's policy to end excessively high exit payments in the public sector.

## McCloud and Sargeant Court Case

Changes to the LGPS were consulted on separately by MHCLG and, on 13 May 2021, a Written Ministerial Statement outlining some key remedy policies was issued and a full consultation response and draft regulations are expected to follow later in the year with final regulations expected to be implemented in April 2023.

## Scheme Pays for Annual Allowance (AA)

The Annual Allowance (AA) is the amount by which a member's pension benefits may increase in a year without attracting a tax charge. If the value of their pension benefits grow by more than the AA, the excess will be taxed as income.

Scheme Pays is the mechanism by which a member can ask the Fund to pay the tax charge to HMRC in exchange for a reduction to their future pension benefits. Each Local Government Pension Fund has the discretion to offer Voluntary Scheme Pays (VSP) to its members. The Committee previously agreed a policy in relation to the use of VSP where a member has a tax charge as a result of tapering. There are other scenarios for which a member can request the use of VSP and this policy expands on the previous policy in order to consider these should they arise.

Charles Gerrish asked if consideration could be given to updating the chronological format of the report.

The Pensions Manager replied that officers would review the content of the report.

Charles Gerrish asked what would happen if Scheme Pays has been allocated to a member who then subsequently dies.

The Pensions Manager replied that with the decision having already been made the benefit would remain in place.

Councillor Bruce Shearn asked for an update on staff / working from home.

The Pensions Manager replied that the redevelopment of Keynsham Civic Centre (KCC) was ongoing and therefore limited numbers of officers were able to be in the office. He added some group spaces were now becoming available to book within KCC and the Guildhall.

He added that some members of the team have found working at home easier than others.

The Committee unanimously **RESOLVED** to:

- i) Note the current position regarding the developments that could affect the administration of the fund.
- ii) Agree the policy regarding application of Scheme Pays for Annual Allowance.

## **15 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS AND RISK REGISTER**

The Pensions Manager introduced this report to the Committee. He said that there has been a sharp increase in workload especially the volume of telephone calls and email enquiries to the administration team which has led to a downturn in overall performance.

He added that there are some concerns amongst staff about the continuation of working from home ranging from IT and broadband connectivity to personal issues around child-care and other carers responsibilities. More recently there has been an increase in staff sickness and in particular absences around mental health.

Referring to section 8.4 of the report Councillor Shaun Stephenson-McGall asked if any of the employers were consistently of notable concern.

The Pensions Manager replied that there were not and said that employer relations teams were in place to monitor this.

The Committee unanimously **RESOLVED** to note the Fund and Employer performance for the three months to 31st March 2021.

## **16 BUDGET & CASH FLOW MONITORING**

The Head of Business Finance & Pensions introduced this report to the Committee.

The Committee unanimously **RESOLVED** to note:

- i) The administration and management expenditure incurred for the year to 31 March 2021.
- ii) The Cash Flow report for the year to 31 March 2021.

## **17 WORKPLANS**

The Governance & Risk Advisor introduced this report to the Committee. She said that the purpose of the work plans is to provide members with an indication of their future workload and the associated timetable.

Councillor Shaun Stephenson-McGall asked if the Equity Review, scheduled to be undertaken by the Investment Panel, should be opened up to all members of the Committee.

The Head of Business Finance & Pensions replied that he could discuss the matter further outside of this meeting.

The Committee unanimously **RESOLVED** to note the Committee & Investment Panel work plans and training programme for the relevant period.

The meeting ended at 9.52 am

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**



June 2021.

## West of England Unison Branches Joint-Statement

### Avon Pension Fund.

On 26 March UNISON submitted the following questions to the fund -

1. **Has the fund identified which companies in which it invests are engaging in fossil fuel extraction and fossil fuel energy production?**
2. **How is the progress those companies are making towards decarbonisation being measured?**

Thank you for responding to these questions.<sup>1</sup>

We commend the fund for the steps it has taken to account for climate change, including reducing the risk of stranded assets to the pensions of its members, and significant investments the fund is now making in low carbon infrastructure such as renewables.

However, we still have questions relating to the fund's engagement with the fossil fuel industry.

Firstly, your response has not disclosed the companies in which the fund invests are engaging in fossil fuel extraction and fossil fuel energy production.

- **Please provide a list of these companies.**

Secondly, we have concerns with how the fund is tracking progress traditional fossil fuel companies are making towards decarbonisation.

- **Please provide details on the tracking process.**

We understand the fund's 'net zero ambition' only concerns emissions from scope 1 and 2 but does not include scope 3 emissions.<sup>2</sup> It therefore covers direct emissions from owned

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<sup>1</sup><https://democracy.bathnes.gov.uk/documents/s65456/Response%20to%20Unison%20Statement%20March%202021%20Committee.pdf>

<sup>2</sup> Brunel Pensions Partnership proud to be a signatory to a new Net Zero Investment Framework: <https://www.brunelpensionpartnership.org/2021/03/10/brunel-pension-partnership-commits-to-net-zero-no-later-than-2050/#:~:text=David%20Vickers%2C%20Chief%20Investment%20Officer,to%20net%20zero%20by%202050.&text=For%20Brunel%2C%20our%20focus%20now,who%20share%20our%20climate%20ambitions.%E2%80%9D> and Net Zero Investment Framework: Implementation Guide <https://www.parisalignedinvestment.org/>

and controlled sources (scope 1), and indirect emissions from energy consumed but generated elsewhere (scope 2). It does not include indirect emissions from the value support chain, such as investments (scope 3).<sup>3</sup>

If this is the case, the fund's Net Zero Ambition does not account for fossil fuel company investment in exploring and developing new future oil & gas fields. We note fossil fuel companies with 'Net Zero Roadmaps' are relying on carbon capture and storage to meet net zero.<sup>4</sup> The scope to implement these technologies on an industrial scale is questionable.

We refer to the International Energy Agency, which in May 2021 outlined that there should be, 'No new oil, gas or coal development if the world is to reach net zero by 2050'.<sup>5</sup>

We would like to put the following questions to the fund -

- **Can the fund confirm which emissions types (scope 1, 2 and 3) are included in its net zero ambition?**
- **If scope 3 type emissions are not included in the fund's net zero ambition, would the fund consider updating their net zero ambition to include scope 3 emissions, thereby including investment companies are making in future oil and gas?**

Finally we would like to add that the Transition Pathway Initiative, which the Brunel uses to assess how underlying companies that the fund invests are managing climate risk, themselves found in late 2020 that "no fossil fuel energy major has yet set an emissions target in line with limiting climate change to 2°C".<sup>6</sup> This fund have already stated that the Transition Pathway Initiative are 'best-in-class analytical tools'.

Yours sincerely,

**Bath and North East Somerset UNISON**  
**Bath Spa University UNISON**  
**Bristol UNISON**  
**North Somerset UNISON**  
**South Gloucestershire UNISON**  
**University of Bath UNISON**  
**University of the West of England UNISON**

(References for this statement are included in the document submitted to the fund)

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<sup>3</sup> <https://www.carbontrust.com/resources/briefing-what-are-scope-3-emissions#:~:text=Scope%20covers%20direct%20emissions,in%20a%20company's%20value%20chain.>

<sup>4</sup> <https://www.shell.com/media/speeches-and-articles/2019/getting-to-net-zero-emissions.html>

<sup>5</sup> <https://www.theguardian.com/environment/2021/may/18/no-new-investment-in-fossil-fuels-demands-top-energy-economist>

<sup>6</sup> <https://www.transitionpathwayinitiative.org/publications/60.pdf?type=Publication>