

BATH AND NORTH EAST SOMERSET

AVON PENSION FUND COMMITTEE

Friday, 25th March, 2022

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

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

Co-opted Non-voting Members: Richard Orton (Trade Unions)

Advisors: Nick Page (Mercer)

Also in attendance: Tony Bartlett (Service Director - Financial Control and Pensions), Liz Woodyard (Group Manager for Funding, Investment & Risk), Nathan Rollinson (Investments Manager), Geoff Cleak (Pensions Manager), Carolyn Morgan (Governance and Risk Advisor), David Richards (Finance & Systems Manager (Pensions), Anna Capp (Member Services Manager) and Claire Newbery (Employer Services Manager)

86 WELCOME & INTRODUCTIONS

The Chairman welcomed everyone to the meeting.

87 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

John Goddard and Mike Rumph had both sent their apologies to the Committee.

88 DECLARATIONS OF INTEREST

Councillor Paul May declared an other interest in agenda item 11 'Pension Fund Administration' as he is on the Board of Avon Fire Authority.

89 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

91 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

92 MINUTES: 10TH DECEMBER 2021 (INFORMAL) AND 17TH DECEMBER 2021

The members of the Committee were minded to advise that the minutes be approved as a correct record.

93 2022 - 25 SERVICE PLAN AND BUDGET

The Service Director for Financial Control and Pensions introduced the report to the Committee. He said that a more difficult valuation process was expected this year with respect to the ongoing conflict between Russia and Ukraine.

He highlighted the following points from the Service Plan.

He explained that the operating circumstances have been challenging over the past two years during which, productivity and particularly the management of new developments and projects have remained challenged in respect of delivery times.

He stated that a review will take place of the wider operating model and structure to include member and employer services and separate support and development function.

He informed the Committee that they will develop a new digital service platform providing Customer services and digital records management.

He said that they will be implementing an action plan following a review of TPR's Single Code of Practice, particularly in regard to cyber security.

He stated that the direction of travel of the Service Plan has been consistent for a number of years.

Charles Gerrish asked for confirmation that new offices will be available for the Fund at the River Suite, Keynsham.

The Service Director for Financial Control and Pensions replied that an arrangement is in place with the Council and that hopefully this will come to fruition by end of the year.

Shirley Marsh-Hughes said that she supported the proposals, but asked does the Plan go far enough.

The Service Director for Financial Control and Pensions replied that it was a question of what work the Fund can manage and to focus on our delivery. He added that investment in technology was also required across the Fund.

Richard Orton asked when the Committee will be able to meet in person.

The Service Director for Financial Control and Pensions replied that officers have tried to arrange in person meetings and have come close, but infection rates for Covid-19 are currently high. He added that this being the case it was felt best to revert to a meeting online as there are no hybrid facilities available at present.

The Chairman added that the Committee has taken its lead from Council and Cabinet who had also made the same decision this month to meet virtually. He said that he hoped that a hybrid solution would be in place soon.

Shirley Marsh-Hughes asked if the Pension Board has a role in this process to approve the Service Plan.

The Service Director for Financial Control and Pensions replied that elements of the Plan are discussed with them, but it was just a matter for the Committee to approve it.

Richard Orton referred to page 10 of the Service Plan where it states that 'As at 31/12/21, Brunel manage £4.9 billion or 83% of the Fund's assets' and asked if that was to be the maximum and which assets do the Fund directly manage.

He also asked what the net savings figure was projected for in 2024 / 2025.

The Group Manager for Funding, Investment & Risk replied that she thought the savings were in the region of £3-4m, but would check and respond in writing.

Following the meeting it was confirmed that in the Business Case we were expected to break even in 2023/24 and by 2024/25 the annual net saving (net of Brunel costs and Transition costs) was c. £3.4m p.a., and cumulative saving of £5.1m (which relates to the £73m quoted in the Service Plan).

The Group Manager for Funding, Investment & Risk added all Listed Market Assets are managed by Brunel whilst the Fund retains the Legacy Assets that are more in the private markets domain and these will wind down over the next 5 – 10 years. She added that the funds made available following wind down would be given to Brunel to invest in portfolios that we allocate to.

She added that they were in the process of selling down their Hedge Fund portfolio which will be completed within the next financial year and this again will be recycled into Brunel portfolios accounting for around another 5-6%.

Referring to the IFM / Core Infrastructure portfolio she said that they were currently looking at ways in which this can be progressed.

She said that it was the intention that all assets be managed by Brunel where possible, but it will take time with the bulk of the work having already been done.

The Pensions Manager stated that a number of key changes to the business operational model will be taken forward in order to support the drive to deliver a more efficient automated service. He gave the Committee an overview of the proposed operational model and top level structure concept.

Tier 1: Digital Services

- I-Connect Processing
- I-Connect Engagement Team
- Member Contact Centre

Tier 2: Operations

- Employer Services
- Member Services

Tier 3: Support & Development

- Technical & Compliance
- Communications & Marketing
- Transformation

The Governance & Risk Advisor said that the model had been developed over the last year and that officers felt that if Tier 1 can be put in place to the best of its ability then more time would be available to work on the other tiers.

The Pensions Manager stated that as part of the Admin Strategy 2022-25 implementation of the new operating model was scheduled for April 2023 following work in relation to the structure, job descriptions and career grading.

He added that there were three key areas to try to clear as part of this process.

- Complete I-Connect Roll out (March 2023)
- Implementation of Heywood Insights (September 2022)
- Implement Digital Office (March 2023)

Shirley Marsh-Hughes said that she hoped staff would see the benefit of the proposals as a positive move.

The Pensions Manager replied that conversations with staff will begin from next month and that nobody was at risk as a result of this process. He added that the new operating model reflects an increase in the management structure and it was hoped that it will be seen as an opportunity to make progress within the administration service as part of a career progression.

Councillor John Cato referred to digital services and in particular I-Connect and asked how likely was it that mistakes could be made as part of the self-service process. He also asked if training would be made available to enable users of the service.

The Pensions Manager replied that as far as data from employers was concerned the Fund has been providing verification for them. He added that they have been training employers to submit data through I-Connect and that the intention is to hand back control of the submission to them on a monthly basis.

He said that a number of exception checks are carried out before the data is uploaded and any errors will be pushed back to the employers to rectify.

Councillor John Cato asked if enough people have experience of using the system.

The Pensions Manager replied that the I-Connect system has been in place for around the past 11 years and APF was one of the first administrations to take it on

board. He said that the majority of LGPS Funds were now using it or something very similar.

The Governance & Risk Advisor added that the self service tools I-Connect and My Pension Online were not new and that this was seen as an opportunity to put them together within the Digital Services Team to maximise their potential and to enable better use of the data that is gathered.

The Governance & Risk Advisor advised the Committee that they were seeking to procure a new AVC provider. She added that an interim arrangement has been agreed with current provider Aviva for a further six months whilst discussions are ongoing with Hymans Robertson regarding a new provider.

William Liew commented that he has been using I-Connect for a number of years without any issues. On the matter of the operating model structure he said that it will be important to make sure the right people are assigned to the right roles.

He asked if there was a plan to replace the Service Director for Financial Control and Pensions.

The Service Director for Financial Control and Pensions replied that he had been planning this process for some time with colleagues across the Council. He said that in particular he had discussed putting a revised / interim leadership in place with the Section 151 Officer. He added that there was a possibility that his role might be separated out to provide a more dedicated resource to the Fund.

Pauline Gordon asked if it could be possible to see processes mentioned in action at some point.

The Service Director for Financial Control and Pensions said that he would see if something could be arranged for the Committee.

The members of the Committee were minded to advise that the following resolution should be made on Monday 28th March.

That the Committee approves the 3 Year Service Plan and Budget for 2022-25 for the Avon Pension Fund.

94 TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) introduced this report. He explained that the Committee is asked to approve the Fund's Treasury Management policy each year.

He stated that the policy closely mirrors the Council's policy set out in the Councils' Annual Treasury Management Strategy and that the policy proposed for 2022/23, set out in Appendix 1, is the same as the policy approved in March 2021.

Councillor John Cato referred to Appendix 2 (Proposed Counterparty List) and asked if there were plans to still utilise the ones in Singapore / China with lower fixed ratings.

The Finance & Systems Manager (Pensions) replied that Appendix 2 was included in the report for illustrative purposes for information and that the one listed in Appendix 1 are who we place our money with.

William Liew asked if money for the Avon Pension Fund is held in a separate bank account to that of the Council.

The Finance & Systems Manager (Pensions) replied yes.

Pauline Gordon asked if any elements of the policy have changed over time as it always appears quite similar.

The Finance & Systems Manager (Pensions) replied that some banks do come in and out of the policy. He said that one of the major changes is that a new MMF deposit facility, Handelsbanken has now been added.

The members of the Committee were minded to advise that the following resolution should be made on Monday 28th March.

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

95 UPDATE ON LEGISLATION

The Pensions Manager introduced this report to the Board and highlighted the following areas.

McCloud Judgement

- The Public Sector Pensions and Judicial Offices Bill has received Royal Assent.
- The first two sets of regulations are expected before the Summer recess.
- DLUHC plans to consult on a second set of regulations in Autumn re: Taxation and Compensation
- Delay expected in implementation date – possibly now 1st October 2023.
- Employer data collection ongoing.
- When the detail of the remedy is announced administration work to implement remedy could be challenging.

Ukraine

The Fund has undertaken a series of overseas indicator reports to ascertain that there aren't any pensioner or dependant members with accounts either in Russia or the Ukraine.

Shirley Marsh-Hughes asked if the Fund has been able to implement the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations and how onerous have they been.

The Pensions Manager replied that they have reviewed their Transfer Out process to introduce the new levels and have begun preparing for changes expected to emerge from the “Stronger Nudge to Pensions Guidance” consultation. He added that it is more onerous as more steps are now involved in the process and it therefore takes longer to go through.

He added that if cases do get red flagged they might not be able to proceed with them which then could lead to complaints.

Richard Orton asked when Funds are expected to implement the McCloud judgement.

The Pensions Manager replied that it was due to be from 1st April 2023, but that the LGA believes that this will be delayed until October 2023.

The members of the Committee were minded to advise that the following resolution should be made on Monday 28th March.

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

96 PENSION FUND ADMINISTRATION

The Pensions Manager introduced this report to the Board and highlighted the following areas.

Workload

Generally, the Fund continues to operate below its desired target of >90% for most case types, although the case-by-case breakdown evidences an overall improvement in critical processes for retirements and death cases from the previous quarter. Generally, however, KPI benchmarking performance has declined over the past year.

A contributory factor relating to underperformance can be associated with the inclusion of the current backlog project and the processing of historic workload cases impacting KPI's. As outlined in the previous report, a short-term project is in progress to complete the build-up of processing work identified at the end of September 2021. The project was set to run from October to March with the aim being to clear down all 'backlog' cases over a six-month period whilst continuing to maintain all new business as usual tasks in time.

Currently there is a projected six to eight week overrun on the original completion date which has been attributed to; an increase in staff officer resource transitioning from the project to support business as usual and the complexity of a number of backlog cases remaining. The intention is to now complete this work by the end of May.

Have seen an upturn in performance since staff have been able to return to the office.

The Fund continues to support the Avon Fire Authority in providing affected members with retirement options as identified under the immediate detriment and framework (IDF) agreement in lieu of the McCloud remedy.

The Pensions Manager explained that he and the Service Director for Financial Control and Pensions had recently met with the Avon Fire Authority to explain that due to the challenging nature of the work the Fund would not be seeking to administer on their behalf in the coming years and that support would cease sometime in 2023 / 24.

Richard Orton referred to paragraph 9.7 of the report and asked if it were correct that as part of the Levelling Up agenda, further regulations were expected to direct investments of LGPS Funds. He added that previously Unions have challenged similar proposed regulations.

The Service Director for Financial Control and Pensions replied that earlier this year when the Levelling Up papers were issued by the Government it was identified that 5% of LGPS funds should be invested locally. He added that the Scheme Advisory Board has since advised that can be attributed to UK investment.

He said that they were still awaiting guidance, but there could be an expectation that we are asked to not make investment decisions that conflict with the UK's foreign and defence policy.

Shirley Marsh-Hughes asked if there had been a rise in complaints from members due to some areas of work taking longer than usual.

The Pensions Manager replied that there has been a slight rise in the number of complaints, but said that this was due to the sheer volume of work at the present time.

Councillor John Cato asked what progress was being made to enable the Fund to have enough staff in place in order to ease pressure and reduce some of timescales already referred to.

The Pensions Manager replied that they have recruited to the team recently, but that at the same time staff have also left the team. He added that where possible work has been moved around the team.

He said it was hoped that when the new operating structure was in place with career paths identified that they would be able to retain staff for longer.

The Service Director for Financial Control and Pensions added that with the new structure and career grades they were seeking to make the roles more of a proposition to stay. He added that the public sector in general was struggling with a shortage in recruitment and retention. He added that there was a particular need retain experienced staff within the Fund.

The members of the Committee were minded to advise that the following resolution should be made on Monday 28th March.

The Committee notes:

- i) Fund performance for the three months to 31st December 2021.
- ii) The current Risk Register.
- iii) The updated cashflow forecast

97 WORK PLANS

The Governance & Risk Advisor introduced this report to the Committee and highlighted the following points.

Attached to this report is the work plan for the Committee (Appendix 1) and a separate one for the Investment Panel (Appendix 2) which sets out provisional agendas for forthcoming meetings. The dates for future Committee and Panel meetings are also included.

The provisional training programme for 2022/23 is included at Appendix 3.

Modern Gov Library

From March 2022 the following monitoring reports will be available on the Modern Gov library only:

- i) Regulatory Update
- ii) Investment Performance Monitoring (appendices and supporting detail)
- iii) Budget Monitoring

Hymans LGPS Online Learning Academy (LOLA)

In order to meet the additional knowledge and skills requirements of SAB's Good Governance Review the Fund has introduced Hymans LGPS Online Learning Academy (LOLA).

The training is split into a number of modules covering the revamped CIPFA Knowledge & Skills Framework and TPR's Code of Practice 14. The schedule for completion of the modules is contained within the training programme (Appendix 3).

The members of the Committee were minded to advise that the following resolution should be made on Monday 28th March.

Note the Committee & Investment Panel workplans and training programme for the relevant period.

98 BRUNEL PENSION PARTNERSHIP - UPDATE

The Group Manager for Funding, Investment & Risk introduced the report.

The Service Director for Financial Control and Pensions updated the Committee following the recent Brunel Oversight Board (BOB) meeting and AGM that was held on 17th March.

He informed them that the Chair and Non-Executive Directors had all been reappointed. He added that they have taken the decision to appoint Pannell Kerr Forster as their external auditors.

He said that the main topic for the BOB was a Strategic Review which the Fund has been pushing for in terms of their next steps following the conclusion of the transition work. He stated that this will be a thorough piece of work that will be carried out over the next few months and would involve engaging with stakeholders, including the Committee and shareholders, via workshops and questionnaires to begin to map out a clear path for how their services need to develop.

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

The members of the Committee were minded to advise that the following resolutions should be made on Monday 28th March.

The Committee notes the information set out in the report and appendices.

99 INVESTMENT PERFORMANCE AND STRATEGY MONITORING (FOR PERIODS ENDING 31 DECEMBER 2021)

The Investments Manager introduced the report to the Committee. He said that there were no material concerns with the portfolio to report at this time from either a returns or operational perspective.

He informed the Committee that the Fund's current exposure to assets connected to Russia / Ukraine amounted to £135,000 (0.002% of Fund assets). He added that all remaining direct Russian assets have been marked to zero and have live sell orders in place.

He explained that following the recent Responsible Investment (RI) Member's Survey they would be using the data to input into the Brunel Climate Stocktake. He said that responses to the survey were largely supportive of the current approach to RI, the integration of ESG into our investment decision making, the long term financial risk posed by climate change and the importance of engaging with companies and policy makers.

Nick Page, Mercer addressed the Committee and highlighted some points from within Appendix 2.

- Global supply chains remained stretched and a new Covid-19 variant was discovered mid-quarter.
- Soaring inflation also forced some major banks to accelerate their exit strategies from ultra-loose monetary policies.
- In spite of this, risk assets fared reasonably well with a few exceptions.

- The funding level is estimated to have improved over Q4 to c.102%, as asset growth outweighed the rise in the value of liabilities.
- Mid-March funding level expected to fall by around 4-5%.
- Asset Performance – Equity Markets are down, more so in Europe than the US.
- During the quarter, the Fund transferred most holdings in the Low Carbon Equity fund to the Brunel passive Paris-Aligned Equity fund.
- It also terminated its holdings in Emerging Markets Equity, for which strategic allocation was distributed between High Alpha and Sustainable Equity mandates (which still contain emerging markets exposure).
- Risk Management – Performing in line with expectations.

The members of the Committee were minded to advise that the following resolutions should be made on Monday 28th March.

The Committee notes the information set out in the report and appendices.

The meeting ended at 3.45 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services