

Avon Pension Fund Committee Annual Report to Council (April 2023 – March 2024)

Introduction

This is the annual report to Council detailing the work carried out by the Avon Pension Fund (“Fund”) Committee for the period 1 April 2023 to 31 March 2024.

B&NES is the Fund’s administering authority and delegates its responsibility for the Fund to the Avon Pension Fund Committee (“Committee”) which is the formal decision-making body. The Committee makes strategic choices, sets policy objectives, and monitors implementation and compliance with the stated strategy and objectives.

Due to the wide scope of the Committee’s remit, it is supported by the Investment Panel (“Panel”) which sets investment strategy and assesses performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions.

The Committee and administering authority are scrutinised by the Local Pension Board, ensuring that governance of the scheme is robust and fit for purpose and aligned with relevant regulations.

The scheme is regulated and overseen by The Pensions Regulator. Other bodies and agencies undertake key roles, particularly the Local Government Pension Scheme Advisory Board, the Ministry of Housing, Communities and Local Government and CIPFA (Chartered Institute of Public Finance and Accountancy), which sets accounting standards.

Brunel Pension Partnership Ltd (Brunel), regulated by the Financial Conduct Authority, manages over 90% of the assets in the Avon Pension Fund.

The Fund is a statutory scheme regulated by the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme Regulations (Management and Investment of Funds) Regulations 2016.

The Fund serves 140,000 members and 471 employing bodies across 4 unitary authorities – B&NES, Bristol, North Somerset, South Gloucestershire. The value of the Fund on 31 March 2024 was £5.8 billion. In 2023-24 the Fund received £251m in pension contributions and paid out £229m in pension payments and other benefits. Full details can be found in the Fund’s annual report.

Governance

Structure and Attendance – Committee

| | Committee Structure |
|----------------------|--|
| 14 voting members | <ul style="list-style-type: none">• 5 elected members from B&NES• 1 elected member from Bristol City Council• 1 elected member from North Somerset Council• 1 elected member from South Gloucestershire Council• 3 independent members• 1 nominated member from higher/further education bodies• 1 nominated member from the academy bodies• 1 nominated member from the trade unions |
| 3 non-voting members | <ul style="list-style-type: none">• 1 nominated member from town and parish councils• 2 nominated members from the trade unions |

Attendance at the quarterly Committee meetings was 88% for the voting members and 50% for the non-voting members.

Structure and Attendance – Investment Panel

The Panel consists of up to six voting members from the Committee and meets at least quarterly ahead of Committee meetings.

The Panel met formally four times during the year, with attendance at 96%, and also met separately to discuss investment strategy and climate change. The Panel also met with selected managers at dedicated workshops where managers presented on their performance and outlook for their portfolio.

Training

The Fund provides training to Committee members to ensure they have appropriate levels of knowledge, skill and understanding to discharge their fiduciary duties.

A training framework is in place, which is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds.

The Fund has adopted the LGPS Online Learning Academy provided by Hyman's Robertson, which forms part of the Committee's training plan. Members have committed to studying the eight modules within one year of joining and triennially after that. The eight modules are as follows:

- Module 1 – Committee Role and Pensions Legislation
- Module 2 – Pensions Governance
- Module 3 – Pensions Administration
- Module 4 – Pensions Accounting and Audit Standards
- Module 5 – Procurement and Relationship Management
- Module 6 – Investment Performance and Risk Management
- Module 7 – Financial Markets and Product Knowledge
- Module 8 – Actuarial Methods, Standards and Practices

At 31 March 2024, 65% of members had completed all eight modules.

In addition, workshops are arranged as necessary, reflecting the Committee's meeting agendas and feedback from members. During the last twelve months, one workshop was held to discuss the Fund's climate change targets and related investment strategy.

Workplans

Separate workplans are prepared for the Committee and Panel detailing areas of work relating to the investment strategy, funding, and administration of benefits. Such workshops give the Committee and officers the opportunity to review workload and plan Committee agendas and workshops.

Internal Audit

During the year, Internal Audit completed one audit of the Fund's internal processes, covering 'Brunel Pension Partnership – Investment Reporting' which achieved assurance level 4 (substantial assurance).

Review of Governance Arrangements and Policies

The Committee reviewed the minutes of the Pension Board quarterly. The Board is on course with the work and training plans and all quarterly meetings have been held as planned.

Fund officers have reviewed the governance arrangements including the Committee's Terms of Reference, Governance Compliance State and the Fund's Treasury Management Policy.

B&NES Council annually reviews the Committee's Terms of Reference and the Treasury Management Policy.

Committee's Activities and Review of the Year.

The Fund is in robust financial health with an improved 98% funding level at 31 March 2024 which has since increased to 104%¹, while also funding a 6.7% rise in pension payments from April 2024. The improved funding position has enabled us to achieve stability in employer contributions, which is welcome given the ongoing strain in local government finances.

Following completion of phase-1 of our investment review – which confirmed the Fund's diversified investment strategy – we have completed phase-2 of the review which focused on climate. We have brought forward the Fund's net zero target date to 2045 and underpinned this with more ambitious near-term milestones. We consulted widely with our stakeholders on our climate policy and their feedback fed into the Committee's decision to bring forward our net zero ambition.

While maintaining member service performance has been challenging during 2023/24, we have now stabilised service experience and have started to see material improvements since March 2024. This has been driven by higher staff retention, better measurement of service experience, and greater process efficiencies.

Administration

Providing efficient service and value for money is important to the Fund. National data shows the Fund incurs lower unit costs than average across all LGPS funds. However, increasing complexity and more stringent compliance, together with growth in employers and membership, has made service delivery challenging.

As a result, the administration function is being restructured to improve service levels through greater digitalisation and investment in systems to automate core processes. This is releasing pensions staff to help members through significant life events, such as retirement and bereavement. Implementation of the restructure during 2024 will improve accuracy of member records and encourage members to access their pension information online. In addition, it includes a dedicated project team which will focus on driving change and improvement.

Key Performance Indicators (KPIs) were below the Fund's targets during 2023-24. A project to focus on service backlogs has led to a material reduction in backlogs during 2023-24, which has led to improved service experience for members since March 2024.

Regulations to implement the 'McCloud underpin'² were finalised by Ministers in late 2023. A project to implement the remedy is ongoing throughout 2024-25. Likewise,

¹ Actuarial estimate at 30 June 2024

² This refers to measures to deal with the age discrimination found by the courts to have affected the transition to a career average pension scheme.

the Pensions Dashboards³ project is underway and the Fund is required to be ready no later than 31 October 2025.

During the year it was discovered that certain pensioners had not received the annual pension increases which they were owed, due to software and process deficiencies. A major exercise was undertaken to check all accounts that might have been affected, and nearly all have now been rectified. The overall cost to the scheme was in line with the original estimate of £1.5 million. The Committee has received regular reports on the issue which was reported to The Pension Regulator (TPR).

The Pension Regulator’s Standards of Data Requirements

The Fund regularly tests its data vs TPR requirements. In the TPR Scheme Return submitted in September 2023 the Fund reported a data score of 95% for common data and 95% for scheme specific data.

Service Plan, Budget and Cash Flow Monitoring

Each year the Committee approves the Service Plan which sets out the Pension Fund’s objectives for the next three years together with a three-year budget to deliver the plan. This included the organisational restructure, digital improvements, staff levels, and training which will drive required improvements in administration.

During the year to 31 March 2024, total Fund costs were under budget.

| Service Area | Budget £'000 | Actual £'000 | Difference £'000 (under-spend is positive) |
|---------------------|---------------------|---------------------|---|
| Administration | 4,584 | 3,973 | 611 |
| Investments | 19,513 | 18,155 | 1,358 |
| Governance | 2,383 | 2,504 | -121 |
| Total | 26,480 | 24,632 | 1,848 |

³ National online system showing all pension schemes of an individual in one place.

Funding Strategy Statement (FSS)

Rising asset values were the main driver of an improved funding level of 98%. The next triennial valuation will be struck at 31 March 2025, which will set employer contribution rates for 2026-29.

During the year we paid out £229 million in pension benefits and received £251 million in contributions from employers and members.

The funding strategy is prudent and designed to keep employer contribution rates stable over time. The average employer contribution rate is 18.6% of salaries.

Investment Management

The value of the Fund's assets rose 7.8% over the year to £5.8 billion, rebounding strongly following a difficult 2022-23. The Fund is in a strong financial position as it goes into the 2025 valuation cycle.

There was no change to the investment strategy during the year. We made our first investment into Local Impact, a portfolio of solar farms across the South West. £35 million was initially invested with a further £15 million earmarked for other green energy projects.

Brunel Pension Partnership

Brunel Pension Partnership manages over 90% of the Fund's assets including all listed assets, in line with government guidance for pooling. Investment fee savings for 2023-24 were c £8 million p.a. and to date the cumulative net savings are c. £12 million.

Responsible Investing and Climate Emergency

During the year we set a new net zero 2045 target for the Fund, with the overriding objective of delivering real world impact on the level of emissions and facilitating transition to a low carbon economy. The Fund continues to make good progress to decarbonise its portfolios, investing in climate solutions and green revenues. We have already achieved our 2025 decarbonisation target for the equity portfolios and have £530 million invested in renewable infrastructure assets.

Future Activity

The Committee's focus for the year ahead will be to oversee the next triennial valuation of the Fund. A workshop is taking place in October for Committee members to be briefed on the interim valuation results ahead of the full valuation in 2025, which will set new employer contributions to take effect from April 2026.

Recruitment to fill all vacant posts in the Fund's new organisational structure is a priority for officers and the Committee look forward to seeing ongoing service improvements as the new structure and digital developments bed in.

New regulations saw implementation of the McCloud underpin for all eligible members from October 2023. The Fund will start to apply the remedy for pre-October 2023 eligible members during 2024 – 2025 in line with regulations and prioritisation guidelines.

The Pensions Dashboards project is ongoing, and the Fund plans to meet its requirement to 'connect' with the Dashboard in October 2025.

The Pensions Regulator published its long-awaited General Code of Practice in March 2024. While the Fund has already implemented the vast majority of code requirements, the Committee is participating in a briefing session in September to fully understand the new code and the Fund will put forward an action plan to implement any additional requirements.

The government has yet to accept the Good Governance Recommendations from the Scheme Advisory Board (SAB) and the Fund looks forward to receiving clarity in this regard. The Fund has nevertheless 'adopted' the guidelines and its governance and training policies are consistent with SAB recommendations.