

AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL (April 2021 - March 2022)

1 INTRODUCTION

This is the annual report to Council detailing the work carried out by the Avon Pension Fund Committee for the period from 1 April 2021 to 31 March 2022.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the “Committee”) which is the formal decision-making body for the Fund. The Committee’s role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework.

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

The Pensions Committee and administering authority are scrutinised by the Local Pension Board ensuring that the governance surrounding the scheme remains robust and fit for purpose.

The scheme is regulated and overseen by the Pensions Regulator. Other bodies and agencies undertake key roles, particularly the LGPS Scheme Advisory Board, the Department for Levelling Up, Housing and Communities, and CIPFA, which sets the accounting standards.

Brunel Pension Partnership Ltd (Brunel), the company established by the Brunel pool to implement the Fund’s investment strategy is regulated by the Financial Conduct Authority.

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

Bath & North East Somerset Council (“the Council”) administers the Fund on behalf of approximately:

- 464 employing bodies
- 130,000 members

The value of the Fund as at 31 March 2021 was £5.8 billion.

In 2021/22 the Fund:

- received £186m in pension contributions
- paid out £192m in pension payments and benefits

Full details can be found in the Fund’s annual report
<https://www.avonpensionfund.org.uk/finance-and-investments>)

2 COMMITTEE MEMBERSHIP

The Committee structure is as follows:

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

3 COMMITTEE ACTIVITIES & REVIEW OF THE YEAR

It has been another challenging period for the Fund with Covid-19 continuing to affect our ability to deliver our service. By the end of the year just as normality was being restored, we were confronted by the repercussions of the war in Ukraine. This geopolitical event has serious consequences for us all, most notably a cost of living crisis here in the UK. For a pension scheme whose pension benefits are indexed by inflation the current spike in inflation puts significant upward pressure on the liabilities and means our investment strategy must work harder to achieve the real, after inflation, returns we require to fund those liabilities.

The Fund is however in a good place with all staff now fully equipped to work in a hybrid way, both in the office and remotely. Our investment returns are still ahead of expectations and the transition of our assets to Brunel has successfully been completed. Pooling has so far achieved lower management fees compared to pre pooling fee rates, enabling more efficient implementation of our investment strategy and has transferred much of the operational risk to Brunel.

The administration service has been particularly challenged over the last 2 years of working remotely, exacerbated by high staff turnover. The Committee has approved a plan to fully digitalise the service and introduce a new operating model to support this transformation which will be completed over a 2-year period.

It has been a busy year for our Responsible Investing strategy. We issued our first FRC UK Stewardship Code 2022 report as well as our first TCFD statement. During the year the Committee received statements from members and the public requesting that the Fund divests from fossil fuels. Whilst we understand the reasoning, our approach is to invest our assets to enable the transition to the low carbon economy and achieve real world reductions in carbon. To achieve this we have increased our alignment to the net zero transition by investing in a new Brunel Paris Aligned equity portfolio and set new intermediate climate targets to reduce the absolute emissions of the equity portfolio by 43% by 2025 and 69% by 2030 (versus 2020 baseline); these provide clear milestones during the transition period for the Fund to achieve net zero

by 2050. Lastly, we achieved our target to be 30% less carbon intensive across the equity portfolios 2 years earlier than planned.

We have listened to our stakeholders who want better and more informed communications from us. One development was a member survey on Responsible Investments which included their views on our approach to climate risk. We have also introduced 'ESG', an online magazine focusing on environmental, social and governance issues relating to our investments.

Ahead of the 2022 valuation we have engaged with our employers to help shape the funding strategy especially in respect of the affordability of contributions given the cost pressures they are all now facing. There will be more interaction with our employers as the valuation progresses during the latter half of 2022/23.

Progress against the Committee's workplan is set out in appendix A.

4 FUTURE ACTIVITY

Over the year ahead the Committee's focus will be on the digital transformation project, addressing the climate emergency and managing employer risk.

We will be looking forward to the Fund's return to the office which will assist enormously in developing and training staff as well as working together to execute the significant projects planned for the next couple of years

During 2022/23 the triennial valuation and investment strategy review will focus on ensuring the funding strategy can achieve its strategic objectives over the next 3-5 years against a difficult economic backdrop.

We are also discussing with Brunel and our partner LGPS funds in the pool, the strategic direction for the next 3-5 years now that the transition period is behind us.

Our forward looking 3-year Service Plan sets out the Pension Fund's objectives and priorities with a budget that supports the objectives and actions arising from the plan.

August 2022

