

**AVON PENSION FUND COMMITTEE ANNUAL REPORT TO COUNCIL
(April 2022 - March 2023)**

1. INTRODUCTION

This is the annual report to Council detailing the work carried out by the Avon Pension Fund (the “Fund”) Committee for the period 1 April 2022 to 31 March 2023.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the “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 (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 Committee and administering authority are scrutinised by the Local Pension Board, ensuring that governance of the scheme is 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 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.

Bath & North East Somerset Council administers the Fund on behalf of 134,000 members and 462 employing bodies. The value of the Fund as at 31 March 2023 was £5.4 billion. And in 2022-23 the Fund received £203m in pension contributions and paid out £198m in pension payments and other 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)	<ul style="list-style-type: none">• 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)	<ul style="list-style-type: none">• 1 nominated from Town & Parish Councils• 2 nominated from different Trades Unions

3. COMMITTEE ACTIVITIES & REVIEW OF THE YEAR

It has been a year of encouraging progress and development for the Fund.

We completed a triennial actuarial valuation during the year which showed the Fund to be in robust financial health, with a 96% funding level as at 31 March 2022¹. The Fund also funded a 10.1% rise in pension payments from April 2023. The improved funding position allowed us to achieve stability in employer contributions, critical given ongoing strain in local government finances.

We completed phase one of an investment review, focused on long-term objectives and setting out the appropriate asset mix to generate returns required to meet future pension commitments. This review confirmed the Fund's diversified investment strategy, with assets spread across equities, infrastructure, property, and bonds.

We have also been active in responsible investing and our equity investment portfolio is 20% more carbon efficient than the wider market. However there is keen appetite to accelerate progress towards net zero, and the investment review continues into 2023-24 with a robust assessment of the Fund's climate objectives. To help us we are actively encouraging involvement from scheme members, trades unions, councillors, and other stakeholders. We plan to confirm fresh climate targets before the end of March 2024.

Administration has been challenging over 2020-23. While service levels materially improved during 2022, performance in aggregate remains well below required levels as a result of staff vacancy rates of c.13%, increased data from employers reflecting higher employee churn, and regulatory changes.

Collaboration between APF teams and employers ensured the Fund continued to meet its statutory obligations throughout 2022-23. This included sending members their Annual Benefit Statements and Pensions Savings Statements on time.

The Fund appointed Legal & General as its Additional Voluntary Contribution (AVC) provider and successfully transferred members from Aviva and Utmost Life.

¹ Estimated to be 98% on 31 August 2023

The Fund has adopted a hybrid model of office and homeworking, which is helping development of staff as well as bringing teams back together to work more effectively. Our office accommodates 60% of staff and full-time staff are now office based at least two days a week.

In December Committee members approved the decision to make studying of the Hymans LGPS Online Academy mandatory for all members within a year of joining the Committee.

The Fund was pleased to appoint Nick Dixon as its new Head of Pensions in October 2022, to lead us through the next phase of the Fund's development. Progress against the Committee's workplan is set out in appendix A.

The Committee notes two important events that occurred after this reporting period, but before publication.

Firstly, the Committee reappointed Mercer as our Investment Advisors in September 2023. Their pitch on the climate and the understanding of the subject was a key factor in reaching the decision.

Secondly, the Fund was shortlisted in the 2023 LAPF Investment Awards for our climate strategy. The awards recognise excellence in the field of LGPS pensions provision. Congratulations go to NILGOSC who won the award, and to the other short-listed pension schemes London Borough of Newham and Southwark Council.

2 FUTURE ACTIVITY

Once again over the year ahead the Committee's focus will be on improving service experience, addressing the climate emergency, and managing investments to achieve financial strength and stable employer contributions.

To improve service experience, the Fund is driving three core actions:

- *Vacancies:* officers are working to recruit new staff and improve skills, to boost service capacity. There is also a keen focus on staff retention and skills development.
- *Performance insight:* the Fund is developing the range and insight of management information, to embed this in day-to-day decision making.
- *Project portfolio:* the Fund is developing a portfolio of transformational change which will digitalise administration, to improve members' service experience and drive operational efficiency. This includes a new member website and broader capability for member self-service through My Pension Online.

A rebranding project is also underway to help support the new member website and communication campaigns, such as My Pension Online sign-ups.

Work also continues in preparation for planned legislative changes such as the McCloud (age discrimination) remedy and the pensions dashboard.

The Fund expects to transfer administration of the Avon Fire & Rescue Firefighter's pension scheme to an alternative supplier before 30 June 2024. This is an unfunded scheme so does not include a transfer of assets.

In autumn 2023 the Fund continues the thorough assessment of its climate objectives. As part of this review the Fund will be speaking to and surveying key stakeholders about its climate and net zero targets. We welcome a full engagement with all councillors and pension fund members on this part of our responsible investments.

The Committee is supportive of the initiative to invest an allocation of 3% of the Fund's Investments in a Local Impact portfolio, which is expected to deliver positive social and environmental impact primarily in the South West region which will be implemented over 2024-26.

October 2023

Avon Pension Fund Committee Review		April 2022 to March 2023	On Target
Progress in Year			
Governance			
1	Governance Review	Conducted annual review of governance arrangements inc Terms of Reference, Governance Compliance Statement, roles & responsibilities. Terms of Reference approved by Council annually	
2	Committee Meeting Attendance	The Committee meets quarterly. Attendance at the meetings was 88% for the voting members and 25% for the non-voting members.	
3	Investment Panel Attendance	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 of 79%.	
4	Risk Register	Reviewed quarterly by officers, committee and Pension Board	
5	Workplans	Reviewed quarterly by officers, committee and Pension Board	
6	Training	Achieved through committee reports, workshops, conference & seminar attendance, online training	
7	Annual Report	Work on the annual report including the final accounts is on course to be published by 1 December deadline	
8	Internal Audits	Internal audits carried out during the year were System Access - assurance level 2 (limited assurance) Cyber Security - assurance level 3 (reasonable assurance) & TPR Code of Practice 14 - Maintaining Contributions & Member Information gained an overall assurance of 4 (good)	
9	Local Pension Board	Pension Board on course with Work and training plans. All meetings held as planned. Minutes reviewed by Committee quarterly	
10	CIPFA Benchmarking	The CIPFA benchmarking data highlights the Fund's comparative performance in key cost areas. They demonstrate the Fund's lower cost performance when compared with national averages. Full details can be found in the Fund's annual report. Admin cost per FTE = £44,723 v national average of £70,591 Admin cost per member = £21.17 v national average of £35.10	
Financial			
11	Service Plan & Budget	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.	
12	Budget & cashflow monitoring	During the year to 31 March 2023, total administration costs (excluding advisory and investment management costs) were £3.4 million, 7% below the budget of £3.6 million. Annual investment management fees paid in the year were under budget at £18.1 million. The budget for governance costs was £3.6 million with actual costs just under budget at £3.4 million.	
13	Treasury management Policy	The Committee approves the Fund's Treasury Management Policy annually in March.	
Investment management			
14	Investment Strategy & Performance	Brunel now manage 86% (or £4.6 billion) of the Fund's assets. Within private markets, the Fund invests in Brunel's Secured Income, Renewable Infrastructure and Private Debt portfolios. At 31 March 2023, 56% of the Fund's combined commitments to these portfolios had been invested.	
15	Brunel Pension Partnership	In 2022-23 APF achieved annual fee savings of £8.6 million and cumulative fee savings to date are £20.3 million.	
16	Strategic Investment Review	Completed 3 yearly strategic review of asset allocation. Agreed a new allocation of 3% to a Local Impact Portfolio and to invest 50% of the equity assets in a Paris aligned passive fund.	
17	FRC Stewardship Code	As a signatory to the Financial Reporting Council's (FRC) UK Stewardship Code, the Fund submitted its second annual statement.	
18	Responsible Investing & Climate Emergency	On target to meet interim decarbonisation targets as achieved 6% y-o-y reduction in the absolute carbon emissions of the listed equities portfolio, equivalent to a 42% reduction versus 2020 baseline. The intermediate climate targets to reduce the absolute emissions of the equity portfolio by 43% by 2025 and 69% by 2030 (versus 2020 baseline) will be revised during 2023. These provide clear milestones during the transition period for the Fund to achieve net zero. Published our 2nd Task Force on Climate-Related Financial Disclosures (TCFD) statement demonstrating our commitment to reducing our carbon exposure Implemented a climate solution for the Fund's liquidity portfolio by investing in Paris Aligned liquidity assets.	
Funding Strategy			
19	Annual Employer Update	Given the impact of the pandemic and rising costs on the scheme employers, affordability of pension costs was a key consideration in managing financial risk for both employers and the Fund at the 2022 valuation	
20	Valuation Results / Section 13	In the 2022 valuation the assets totalled £5,822m and liabilities were £6,060m. The funding level was 96%.	
21	Review of FSS	The Committee approved the latest Funding Strategy Statement in September 2022	
Administration			
22	Performance Indicators	While service levels materially improved during 2022, performance in aggregate remained well below required levels and just five out of nineteen service measures were completed within target timescales. Staff vacancy rates are running at c.13%	
23	Administration Strategy	The committee approved the budget for the revised service plan including new organisational structure, staff salary review and digital improvements to the Fund which will drive forward the required improvements to the administration.	
24	The Pension Regulator's Standards of data requirements	The Fund regularly tests its data against The Pension Regulator's (TPR) requirements. In the TPR Scheme Return submitted in September 2021 the Fund reported a data score of 95% for common data and 95% for scheme specific data	
Legislation			
25	Update on legislation	McCloud/Sargeant (Age discrimination) – McCloud regulations have been laid in effect from 8 September and will take effect from 1st October 2023. Further statutory guidance is awaited on the remedy but the team are ensuring the regulations are followed from the effective date Pensions Dashboards Programme – Ongoing project in place with key officer resource to ensure the Fund's compliance with the onboarding of the PDP. The Regulations came into force in December 2022. The deadline for overall compliance to the Dashboards has been extended to 2026, with a separate staging timeline will be set out in the connection guidance.	