

Question 8 – Cllr Geoff Gollop

1. Please explain how a fall in bond yields increased the pension fund deficit?

Answer: A pension deficit arises when the pension liabilities are greater than the pension assets. The pension assets reflect Bristol City Council's share of the Avon Pension Fund investment assets as valued at 31st March 2021. The pension liabilities are more complex to understand as they are based on the value of the defined benefit pension promises made to the members of Bristol City Council (that is all the active, deferred, pensioner and dependent members). The accounting standard (IAS19), to maintain consistency in financial reporting across organisations, prescribes how the pension liabilities are calculated. IAS19 requires that the value of the pension promises is discounted to the present value using a discount rate based on the yields of high quality corporate bonds as at 31st March 2021. The corporate bond yield used at 31st March 2020 was 2.4% and fell to 2.1% at 31st March 2021. The lower the discount rate, the higher the present value of the liabilities. The liabilities figure is very sensitive to small changes in the discount rate (in this case 0.3%) because it applies to a very large liabilities figure. Therefore, this year, the fall in bond yields is directly related to the increased pension fund deficit.

2. Is it possible that the narrative should refer to the fall in bond values as a result of falling interest rates?

Answer: Whilst there is a link between interest rates and bond yields, during the past year interest rates have been consistently low. Therefore, there are other factors in the financial markets contributing to the low corporate bond yields, including financial risk.

3. Given bonds made up 14% of total investments at 31 March 2020 and 22.6% at March 2021, why did the fund choose to invest in bonds when the rest of the investment market was choosing equities and alternatives?

Answer: The Fund has not changed the allocation to bonds or credit between the two dates; the increase in the value of the gilt portfolio was due to the impact of the inflation hedging strategy. The inflation exposure is hedged as the pension benefits are linked to CPI; the hedge protects the funding position from changes in inflation and so keeps contribution rates more stable. In March 2020 inflation expectations in the gilt market fell sharply which due to the hedge meant the value of the assets fell; however, this was offset by a similar impact on the liabilities, so the funding position was protected. As inflation expectations rose during the year, the hedge increased the asset value offsetting a similar increase in the liabilities.

4. Was the investment policy as a result of regulator instruction, or investment advice?

Answer: The Investment strategy is based on expert investment advice and the objective is to adequately fund the pension payments as they fall due over time and to provide as stable as possible contribution plans for employers. Under the LGPS regulations APF are required to explain in the Investment Strategy Statement how they will achieve this and manage the investment risks inherent in the strategy. In addition, the LGPS regulations require APF to take expert advice.

5. Who gave the advice?

Answer: Mercer Investment Consultants

6. Which cabinet member is responsible for the pension fund and pension contribution?

Answer: Bath and North East Somerset Council is accountable and responsible for the management of the Avon Pension Fund and this is managed through the Avon Pension Fund Committee.

In terms of Bristol City Council, we have limited direct powers. Our employer contributions to the APF are determined after considering independent advice by the Fund's Actuary. The report compares the triennial valuation results to the prior valuation results as well as looking at the assumptions used, the investment strategies, the ranges of recovery periods and recovery plans. The employer rate is then agreed between the council and pension fund through the Section 151 Officer in consultation with the Deputy Mayor for Finance, Governance and Performance.

7. Who is the senior lead officer on the pension fund?

Answer: For financial matters it is the Director of Finance (s151 Officer). For human resources related matters it is the Head of Human Resources

8. Who are the Council's representatives on the 13-person body that runs the Avon Pension?

Answer: Bristol City Council only has one seat on the Avon Pension Fund Committee, and this is occupied by Councillor Steve Pearce.

9. How do the cabinet member and senior officer convey instructions to that person?

Answer: Senior officers and the Cabinet Member cannot instruct the appointed Councillor who represents Bristol City Council on the Avon Pension Fund on how to act in that role but do provide advice as required. The appointed Councillor must act in accordance with their obligations as a member of the Pension Fund. The Director of Finance meets with the Council's representative in an informal manner to discuss and clarify matters and if appropriate provide advice in her role as s151 officer.

10. Are the meetings and instructions evidenced?

Answer: Not applicable. See above.

11. Given the materiality of the sums involved what scrutiny is able to occur in respect of the pension fund?

Answer: The Human Resources Committee receives an annual report from the Councillor who represents the Council on the Pension Committee and this enables local scrutiny. The Avon Pension Fund also has its own scrutiny arrangements. The Avon Pension Board, made up of employer and member representatives, assists in good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties. The Avon

Pension Fund is also subject to an annual external audit, currently undertaken by Grant Thornton as is the Council Accounts.