



THE AVON PENSION FUND

SERVICE PLAN

2015 - 2018

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CONTENTS OF SERVICE PLAN

SECTIONS

| | PAGE |
|--|-------------|
| 1. INTRODUCTION | 3 |
| 2. KEY OBJECTIVES 2015 – 18 | 4 |
| 3. RESOURCE IMPLICATIONS | 6 |
| 4. BUDGET & CASHFLOW FORECAST 2015 - 18 | 6 |

APPENDICES

| | |
|--------------------|--|
| APPENDIX 1 | SCOPE OF THE AVON PENSION FUND |
| APPENDIX 2 | PROGRESS OF THE 2014-17 PLAN |
| APPENDIX 3 | KEY OBJECTIVES & TARGETS 2015-18 PLAN |
| APPENDIX 4A | BUDGET & CASHFLOW FORECAST 2015-18 |
| APPENDIX 4B | BUDGET COMMENTARY 2015-18 |

1. INTRODUCTION

The 1st of April 2015 represents a key milestone in the governance arrangements of Local Government Pension Scheme's. From this date the Pensions Regulator takes responsibility for setting standards of administration and governance on all aspects of the scheme, whilst newly established Pensions Boards will play an independent scrutiny role to "assist" the Fund with its "regulatory compliance, effective and efficient administration and governance". Nationally the Local Government Scheme Advisory Board moves from shadow to live status and it too will impact on governance requirements and scheme benefits going forward.

With Pensions Administration certainly under the spotlight, there has been a slight abatement of pressure on Investment structures whilst the Election plays out in May 2015. The present government, keen to prescribe investment strategy at a national level, has expressed a preference specifically for collective investment vehicles and more collaborative arrangements between funds but has not dismissed the wholesale merger of pension funds.

The economic environment remains uncertain and it is clear that employers within the fund will continue to face financial challenges over the period of the next parliament with austerity measures set to continue until the end of the decade. The employers for their part and particularly Local Government will continue to seek cheaper alternative service delivery models giving rise to more staff transfers and staff reductions. The period will also include two valuations and for the first time the Government's cost sharing mechanism is likely to come into play when the valuation is struck for April 2016. Considering the Government's powers available within the new scheme regulations to change the benefits structure and contribution rates, continuing low bond yields and slow economic recovery globally would seem to make scheme changes inevitable at one or both valuations.

As expected, the number of employers within the scheme continues to increase and has reached 215 (at 31 January 2015) including 115 academies, with more staff transfers to commercial operators (3) and academies (13) in the pipeline, whilst membership is at an all-time high of 102,595, no doubt aided by auto enrolment. The Administration team continues to absorb this growth and has implemented all the necessary changes to administer the new 2014 CARE Scheme but this is not a sustainable position without further operational changes. It is becoming clearer that the growth in employers requires service changes to cope with the continuing diversity of employers, not only in supporting them through the transition to independence, but also on the ongoing management and administration of their pension responsibilities. It is also clear that further work is required on the automation of processes to maximise the efficiencies of the increasingly digital administration environment if the Fund is to continue effectively manage and communicate with the volume of employers. Perhaps the most critical area which will need attention - though is not necessarily anything to do with the LGPS - is the ability of members to take their pension funds early as cash. This is strongly seen as the next great miss-selling misadventure and will require a proactive response from the Fund and additional investment in communications to ensure Fund members properly understand the issues and are informed of the benefits and pitfalls

The Fund continues to maintain a highly diversified portfolio and for the most part, its investments continue to perform well, adding value with little change envisaged to Investment Strategy. The changes to the Investment Strategy made following 2013 review will all be in place by the time this document is published as will new contracts for Investment Consultancy advice and Actuarial Advice. The challenge now will be to improve investment returns and reduce investment risk further, whilst on the funding side employer covenant, small employer risk and taking a more strategic approach to the next two valuations will be essential

Service Plan 2015-18

The Fund however, remains in a strong position to meet the challenges ahead with both the Administration and Investment areas having undergone evolutionary change in response to changing circumstances over recent years; its funding position remains relatively stable and funding strategy is on target. Administration costs remain below average and automation continues to press ahead thanks to the forward resource planning and investment made by Fund.

Moving forward, the challenge for the Fund now is to build upon and consolidate these changes and not get distracted by those things outside its control. In doing so, the Administration section will focus on improving the use of technology and the efficiency of operation, both of which recognise the role of the Pensions Regulator and the Pensions Board. A key plank of this IT Strategy will be the transition to a self-service environment for employers and members which will require a renewed relationship with the Fund's software supplier and continued development of key skills. The needs of employers will also be carefully considered and a revised "service offer" may be required as part of a revised Administration Strategy, all of which will require some changes to resourcing, but it is expected that this will be contained within the overall financial envelope. There will be significant work to be undertaken in achieving the Pensions Regulator's compliance requirements which is already in progress and there is a further significant project in reconciling the Guaranteed Minimum Pension requirements which has arisen from the DWP's own data cleanse.

The Investments function as stated will continue its focus of managing risk with attention focused on reducing investment risks through exploration of Liability Driven Investments, employer covenants and given the maturity of the Fund, carefully monitoring cash flow and divestment strategies. Some of the Fund's smaller employers continue to face financial difficulties and the Fund will continue to work with them to find affordable solutions. Importantly preparatory work for the 2016 and 2019 valuations will begin this year as it is expected to be a difficult challenge to balance funding, liquidity and affordability given the current economic circumstances.

Finally, training is expected to be a key feature in 2015, not only in supporting the development of the Pensions Board but also potentially new members of the Avon Pension Fund Committee; and to be added to training demand will be that of The Fire Service Pension Board for which the Fund holds the current administration contract.

2. KEY OBJECTIVES 2015 -18

The Fund's three core strategies, Investment, Funding and Administration are designed to maximise the efficiency and sustainability of the Fund and the success of these is critical. In particular diversification of investments has been a key strength in recent turbulent times but is resource and governance intensive with the Investment Panel taking on a greater workload; the Funding Strategy has been developed to ensure there is flexibility to manage affordability but not reduce the solvency of the Fund however, this will remain extremely challenging in the continued period of austerity; the Administration Strategy has set a direction of travel which is perfectly aligned to the developing operating environment but now needs to reflect the greater governance requirements of the Pensions Regulator and digital service delivery. **Appendix 2** sets out progress made against the key objectives in the 2014-17 service plan.

The **Key Objectives** for the Fund during the Service Plan period will be as follows:

Administration Strategy:

1. To review the Administration Strategy to ensure the requirements of the Pensions Regulator are properly addressed in respect of both the Fund and Employers responsibilities in accordance with drafted codes of practice.

Service Plan 2015-18

2. To develop and implement an IT Strategy designed to achieve a digital step change in service delivery and mitigate service demand growth.
3. To implement and embed the new Fire-fighters Pension Scheme in 2015, including systems enhancements and manage the ongoing exit of members of the Councillors Pension Scheme.
4. To undertake a review of the charging basis for Fire Scheme Pension. Current charge does not reflect complexity of Fire Schemes administration or volume of work and resource involved in supporting the service.
5. To provide “as required” support to the local LGPS and Fire Service Pension Boards.
6. To continue to redesign development of web services and information for employers and employees which is fully integrated with self-service provision.
7. To complete the rollout of Employer self-service and i-Connect to achieve 99% pension data receipt in 2015.
8. Develop online facilities for receipt of contribution payment information from employers.
9. To undertake a GMP data cleanse as required by DWP to ensure the fund is not at risk of pension overpayment.
10. Implement ‘auto task assignment’ software and realign processing functions with the administration teams.
11. To progress the move towards electronic delivery of Scheme communications to active members.
12. To improve the quality of member data held to meet The Pension Regulator’s minimum legal requirements as agreed within the required Improvement Plan.
13. To review support service arrangements to ensure the fund receives value for money services
14. To put in place the necessary structural changes to support the evolving operating arrangements and the growing need of employers within the fund

Funding Strategy:

15. To further develop the covenant assessment monitoring process to support the funding position and valuations.
16. To investigate options for insuring ill-health retirement costs for smaller employers or employer clusters within the Fund.
17. To continue to mitigate the risks to small employers of funding variations.
18. To undertake an interim valuation during 2015/16 to assess how the funding position has evolved at the whole fund level.
19. To utilise the interim valuation to develop a medium term funding strategy to cover the next two triennial valuations that determine the contributions payable from 2017 and 2020.

Investment Strategy:

20. To implement any changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.
21. To develop the tactical asset allocation opportunities available within strategic benchmark parameters as they arise within global asset markets.
22. To examine the risks and benefits of Liability Driven Investment as a mechanism for reducing future liabilities.
23. To review the benefits of active currency hedging as a risk mitigation tool and determine the future direction of this mandate.

Governance:

24. To implement the requirements of the Pensions Regulator code of practice and ensure the Committee is fully apprised of the requirements including the Improvement Plan.

Service Plan 2015-18

25. To ensure the relationship between the Committee and the Pensions Board operates effectively and in the best interests of the Fund.
26. To ensure the new committee and the Pensions Board is fully briefed on current strategies and operations and in position to scrutinise and make decisions effectively.

Appendix 3 sets out the Key Objectives and targets in the 2015-18 plan.

3. RESOURCE IMPLICATIONS

The Fund has invested additional resources in IT in recent years in anticipation of demand growth, new and emerging legislation and the reality of operating in a digital economy. Whilst still in a transition phase, it is clear that the pace at which Employer numbers and membership is growing is not sustainable without further investment particularly as public sector service delivery becomes increasingly diluted adding layers of complexity to data management.

The proposals contained with the IT Strategy are designed to achieve a step change in service delivery and provisional sums of £147,600 (2015/16), £155,500 (2016/17) and £86,300 (2017/18) have been included in the budget over the 3 years. It is proposed that these costs will be funded from savings made elsewhere in the budget. This investment will enable the fund to develop its self-service offer, enable the administration to respond more readily to key employer issues, ensure regulatory compliance whilst maintaining ongoing revenue cost levels at 0.04% of future service contributions. As these proposals are still under discussion with the Fund's key software supplier, firmer proposals will be brought to the committee in due course

Some structural changes are proposed to strengthen support for the Fund's IT solutions and recognise the project work necessary to achieve this step change. Further minor changes in the administration structure will reflect the TPR requirements and employer management issues but will be contained within the existing cost envelope. This also includes reviewing support service arrangements to maximise economies and efficiency following the insourcing of key suppliers.

There are a number of savings being pursued which will mitigate some of the temporary cost increases which are described below. However, it needs to be recognised that demand and complexity will give rise to an ongoing demand for investment or resource reallocation as the Fund transitions into greater use of digital services but that wherever possible, mitigating savings will always be sought in an effort to maintain unit costs in the lower quartile per capita (against other LGPS funds) and balance economy with efficiency and statutory obligations

5. BUDGET & CASHFLOW FORECAST 2015 – 18

Budget:

The three year budget plan is a continuation of the 2014-15 budget building on the developments that were incorporated within it. One off items for 2014-15 budget have been removed and additional one off items for 2015-16 have been included where necessary in order to maintain the level of service. Savings have been made across the budget through changing working arrangements and increasing use of technology. Wherever possible the effect of inflation has been absorbed. In the areas of Governance and Compliance and Investment Management, where expenditure cannot be directly controlled the budget reflects the expected volumes of work and fees.

Within the directly controlled budget for Administration there is a proposed gross saving of £224,000 made through efficiency savings. £71,000 of these savings have been used to

Service Plan 2015-18

meet inflation and pay pressures and unavoidable growth, particularly in the matter of Guaranteed Minimum Pension reconciliation. A further £147,000 is being invested in the IT Strategy leaving a small net saving in 2015/16. This overall net saving is expected to increase in future years as a result of the IT strategy.

The Investments budget reflects the anticipated 6% growth in asset values and the consequent increase in Investment management fees. Actual expenditure will clearly be lower if this is not the case. The Investments budget also includes the net additional fees of the Diversified Growth Fund managers (for the full year) and the Infrastructure Fund manager (new investment).

The Pension Fund is required to meet the costs of Pensions Board that is expected to become operational by July 2015. These costs have been estimated and added to the overall cost to the Fund for the three year budget. Once the Board has been established it will be possible to make a more informed estimate of its cost.

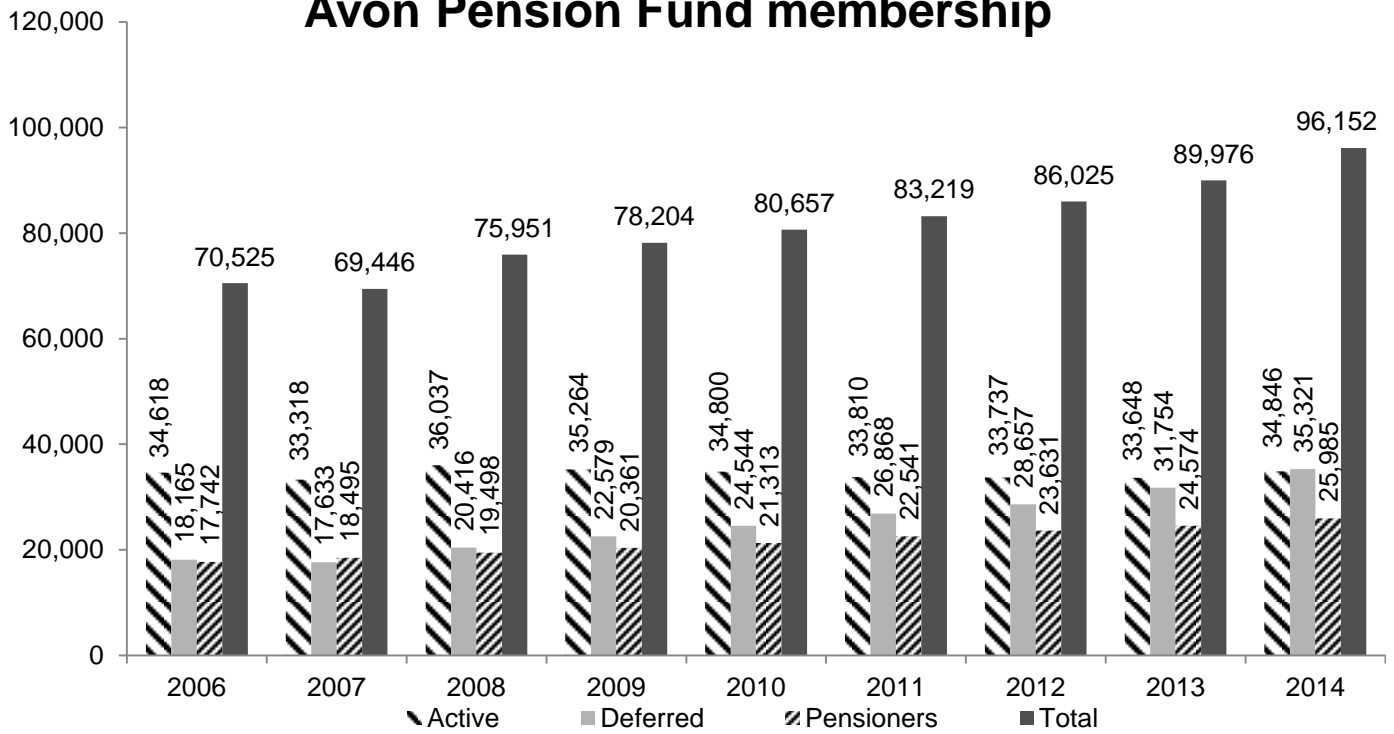
Cash flow:

In recognition of the increasing importance of cash flow monitoring the Fund prepares a three year cash flow forecast. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The cash flow is currently monitored on a monthly basis and reported quarterly to Committee. As a result of the advance lump sum deficit payments made by the major employers in April 2014 the Fund had large cash in-flows (which were not anticipated when the cashflow forecast for 2014/15 was prepared). However the consequent absence of the deficit payments throughout 2014/15 to 2016/17 has exacerbated the negative annual cash flows. The negative cash flows will be managed by using income from the investment portfolio and divestments (of the lump sums already invested) if required.

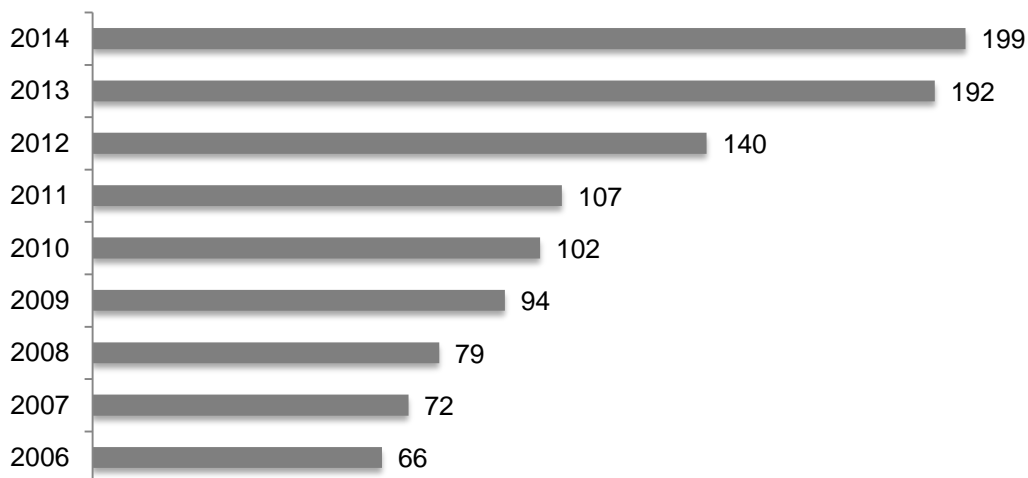
Full details of the budget movements between 2015-16 and 2017-18 together with a cash flow forecast for the whole Fund are given in **Appendix 4A**. A commentary on the budget changes between 2014 -15 and 2015-16 is given in **Appendix 4B**.

Appendix 1 – Scope of Avon Pension Fund
(at 31 March 2014)

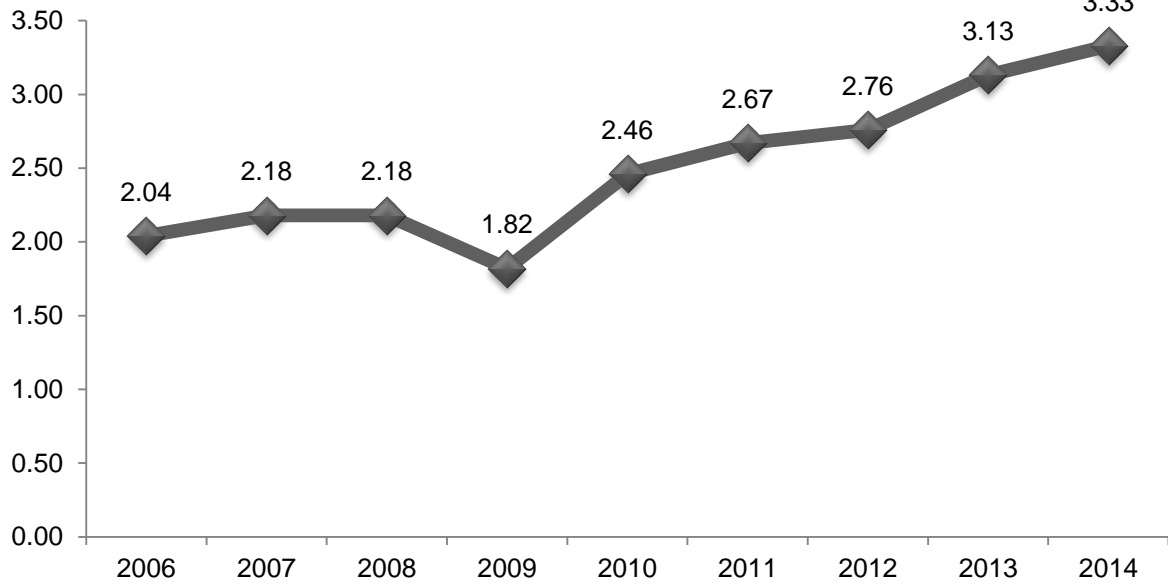
Avon Pension Fund membership



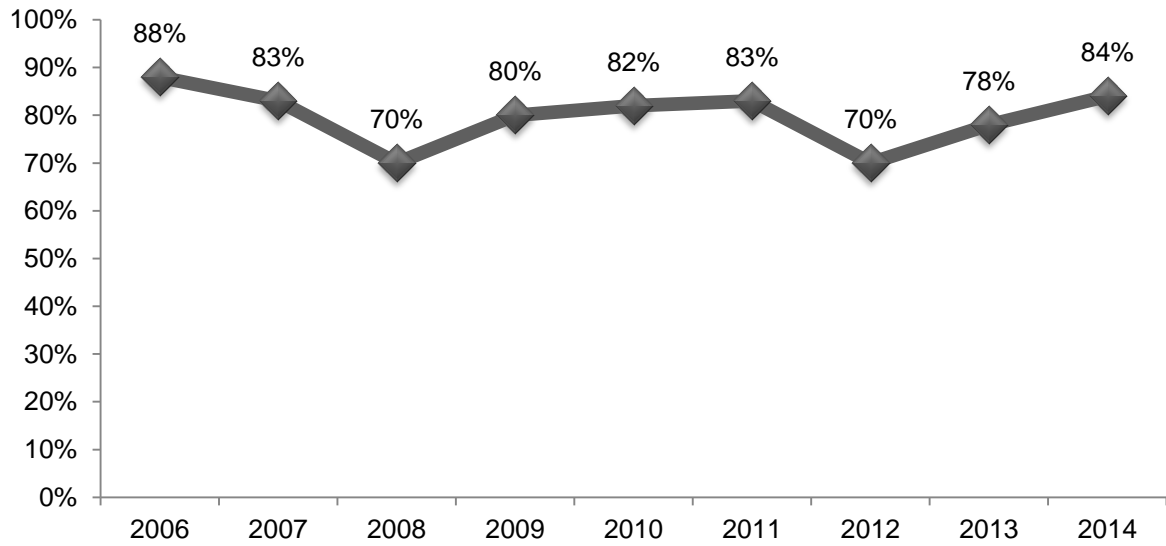
Participating employers



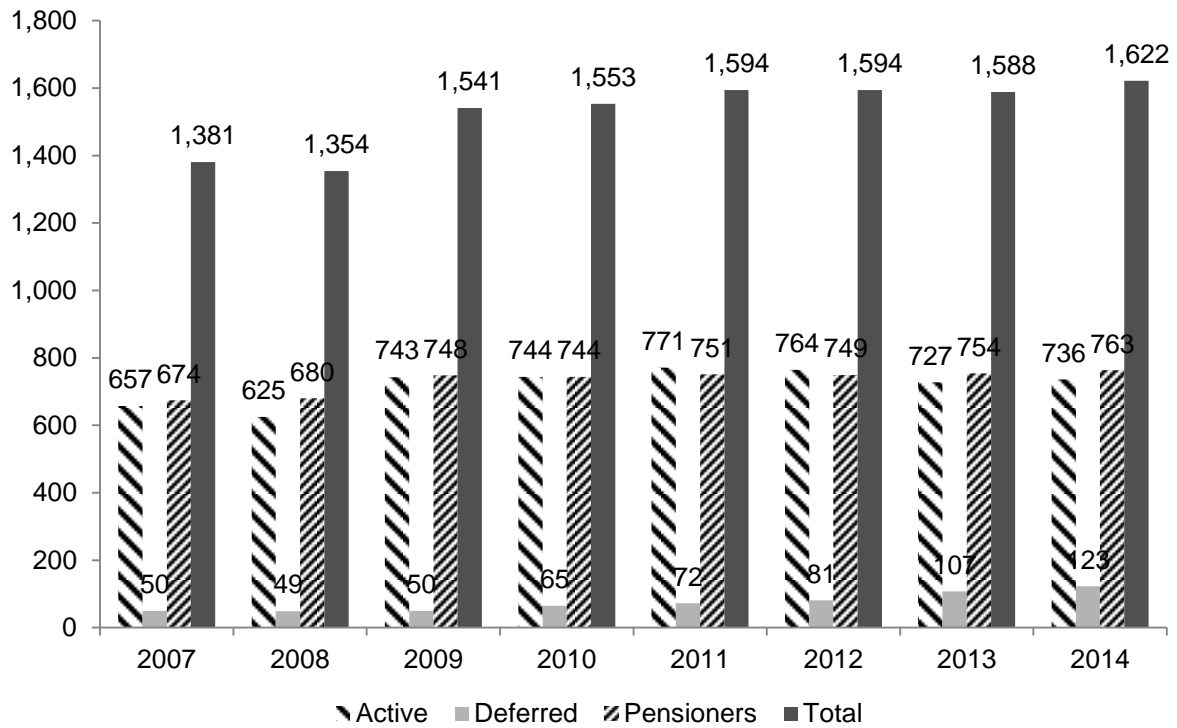
Fund assets (£billion)



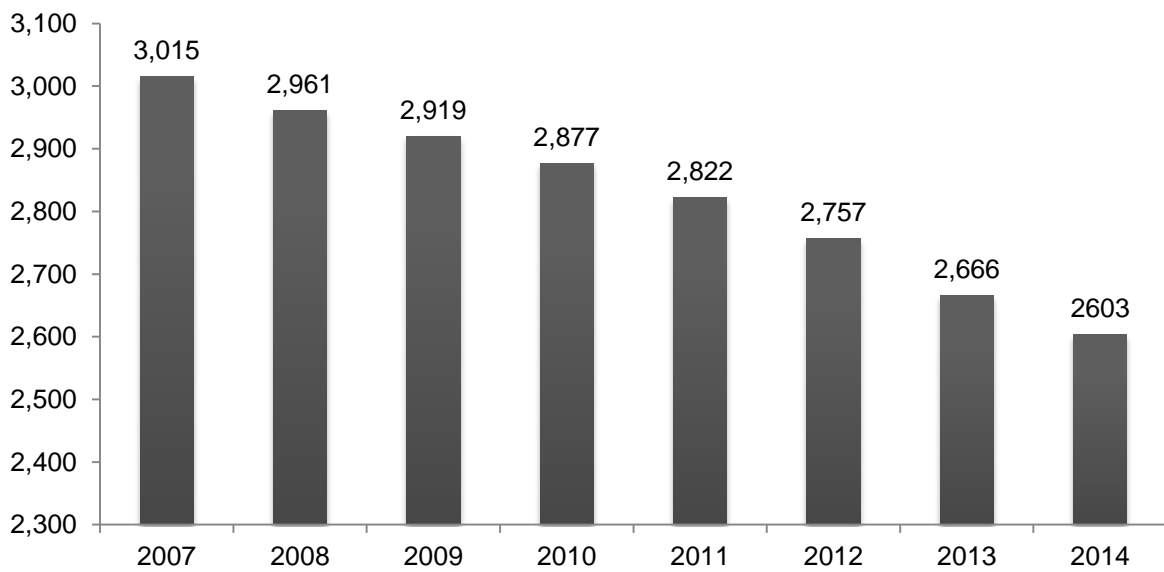
Funding level



Fire Fighters' Scheme - membership



Teachers Compensatory Added Years - number of pensions in payment



Progress against Key Objectives & Targets in 2014-2017 Plan

| | Key Objective | Tasks | Progress |
|---|---|---|---|
| 1 | Potential changes to structure of LGPS funds | <ul style="list-style-type: none"> Assess implications for Fund of consultation and DCLG "Direction of Travel" Consultation from Government Direction of Travel (expected by June 2014) | GREEN Consultations completed |
| 2 | To review the Governance arrangements for the Committee in view of the emerging changes | <ul style="list-style-type: none"> Review the appointment of Independent Investment Advisor (awaiting governance arrangements from DCLG) Identify changes to governance arrangements as result of DCLG regulations Training for new members Committee Training (in-house provision) <ul style="list-style-type: none"> New scheme Governance arrangements: implications of new public sector scheme requirements | AMBER Awaiting Pension Board arrangements Pension Board will be established by 1 /4/15 Completed Completed Completed |
| 3 | Review The Pension Regulators Code of Practice for Public Sector schemes | <ul style="list-style-type: none"> Identify areas that need developing e.g. policy documentation Identify areas of non-compliance | GREEN December 2014 (Workshop 3Q14) |
| 4 | Implement changes to the Investment Strategy maintaining compliance with the Funds Investment Principles and Policy | <ul style="list-style-type: none"> Projects arising and Implementation process <ul style="list-style-type: none"> Infrastructure Liability Driven Investing Review hedge fund portfolio | GREEN Completed Planned for 2015/16 In progress |
| 5 | Investigate options for insuring ill-health risks | <ul style="list-style-type: none"> Commission actuary report on options, costs and funding implications | AMBER Planned for 2015/16 |
| 6 | Develop a central document management system for storing financial, legal and actuarial information of individual employers | <ul style="list-style-type: none"> Select appropriate software or set up new system to enable central storing of financial /actuarial data and correspondence | AMBER Planned for 2015/16 |
| 7 | Re-tender advisory contracts | <ul style="list-style-type: none"> Tender actuarial and investment consultancy contracts under the South West LGPS Advisory Services Framework | GREEN Completed |

| | | | |
|----|--|--|--|
| | | | |
| 8 | 2015 Interim Valuation | <ul style="list-style-type: none"> Inter-valuation assessment of funding position at whole fund level only as at 31 March 2015 | GREEN Outcome in 4Q15 |
| 9 | Consolidate the Pension Section organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose | <ul style="list-style-type: none"> Develop the Data Quality team to improve data management to comply with the stringent requirements of the Pensions Regulator effective from April 2015. To assess the quality of existing data and identify errors/omissions and remedy by 2015 Implement auto task assignment. Redesign Benefits team processing procedures | GREEN Completed Completed Ongoing reporting AMBER Planned for 2015/16 |
| 10 | Seamless introduction of New LGPS Scheme 2014 adapting to new pension software and successfully communicating with employers and members on changes | <ul style="list-style-type: none"> Dealing with the extra administration and complexity of a new CARE Scheme <i>and</i> 50/50 Scheme Adapting to new and radically different pensions software Communication campaign with members and employers to successfully explain the changes – requiring member & employer roadshow presentation events, Scheme newsletters, and replacement Scheme literature. | GREEN Completed Completed Completed |
| 11 | Seamless introduction of New Fire fighters new Scheme in 2015 adapting to new pension software and successfully communicating with employers and members on changes | <ul style="list-style-type: none"> Adapting to new pensions software Working with Avon Fire Service to put in place a successful communication campaign to explain changes to fire-fighters. | GREEN Ongoing Ongoing Completion due 2015/16 |
| 12 | To strengthen the working relationship and process efficiency with employers by moving to full electronic delivery of change in member data and other information through ESS and/or i-Connect | <ul style="list-style-type: none"> Complete roll out of Employer Self Service (ESS): <ul style="list-style-type: none"> - to larger employees - to medium AND smaller employers | AMBER 75+% of active membership achieved to date 4Q15 4Q15 |

| | | | |
|----|--|--|---|
| | | <ul style="list-style-type: none"> • Complete installation of i-Connect software for 1 outstanding unitary and support the process • Market i-Connect to other participating employers in the Fund • Implement employer staff training programme • Develop online forms for receipt of monthly contributions data from employers • Roll out to all employers • Consider developing further to incorporate with monthly membership data changes | <p>Due completion 1Q2015</p> <p>During 15/16</p> <p>Completed & ongoing</p> <p>Completed</p> <p>Completed</p> <p>Review 2015/16</p> |
| 13 | To progress to electronic delivery to members as a cost saving measure | <ul style="list-style-type: none"> • To progress to electronic delivery to active members of both personal and generic Scheme communications • Promotion of Member Self-Service to sign up members to enable this | <p>AMBER</p> <p>Ongoing development</p> <p>Due completion 2016/17</p> |
| 14 | To redesign and launch new Member Website. | <ul style="list-style-type: none"> • To compliment new employers website – allowing members greater flexibility and access to APF and related sites | <p>AMBER</p> <p>Ongoing</p> <p>Due completion 2015/16</p> |
| 15 | To embrace partnership opportunities as they arise at both a local and regional level. | <ul style="list-style-type: none"> • Pilot communications opportunities within region to support new scheme implementation | <p>GREEN</p> <p>On-going</p> |
| 16 | Review AVC arrangements | <ul style="list-style-type: none"> • Review range of investment choices for members | <p>AMBER</p> <p>2/3Q15 delay due to Corporate changes at Friends Life</p> |

RAG progress against key objectives/targets: Green (completed) = 63%
Amber (Ongoing – due completion) = 37%

Key Objectives & Targets in 2015-2018 Plan

| | Key Objective | Tasks | Target Date |
|-------------------------|---|--|--|
| Administration Strategy | | | |
| 1 | Implement IT Strategy to increase efficiency of ... | Workstreams: <ol style="list-style-type: none"> 1. Recruitment of ICT Support Team 2. Create Shared Dev'ment Agenda <ul style="list-style-type: none"> • Use the actuary's online valuation modelling tools • Develop Document Management System 3. Progress employer electronic data delivery 4. Develop website and member services | September 2015 Ongoing June 2015 March 2016 Ongoing Ongoing |
| 2 | Review and revise Fire Service charging model | <ul style="list-style-type: none"> • Review of cost basis • Undertake consultation exercise with Fire Service • Develop revised service offer and SLA | September 2015 |
| 3 | Embrace partnership and collaborative opportunities as they arise at both regional and national level | <ul style="list-style-type: none"> • Pilot communications opportunities within region • Use of national and regional frameworks for services | Ongoing Ongoing |
| 4 | Implement new SLAs | <ul style="list-style-type: none"> • Revise employer SLA document and reporting suite incorporating TPR Improvement Plan | September 2015 |
| 5 | Revise Administration Performance reporting and TPR Improvement plan | <ul style="list-style-type: none"> • Develop reporting data to reflect membership mix, workload, performance and employer profiling | September 2015 |
| 6 | GMP data reconciliation project | <ul style="list-style-type: none"> • Data match exercise with DWP to mitigate risk of pension overpayment | 2015/16 for upto two years |
| 7 | Trivial Commutation | <ul style="list-style-type: none"> • Review pensioner member pension pots to identify potential commutation opportunity following 2014 Gov't Budget announcement. | March 2016 |
| Funding Strategy | | | |
| 8 | Further development of covenant assessment process to support valuations | <ul style="list-style-type: none"> • Review current process and develop further using input from advisors • Agree framework for ongoing monitoring by employer/ groups of employers | Commence April 2015 15 By end 2015 |
| 9 | Investigate ill –health insurance options | <ul style="list-style-type: none"> • Commission actuary report on options, costs and funding implications | Commence June 2015 |

| | | | |
|----------------------------|--|---|--|
| 10 | Interim Valuation 2015 | <ul style="list-style-type: none"> • Commission inter-valuation assessment of funding position at whole fund level as at 31/3/15 • Use outcome to develop medium term funding strategy for 2016 & 2019 valuations | Commence April 2015 From November 2015 |
| 11 | Review AVC arrangements | <ul style="list-style-type: none"> • Review range of investment choices for members | Commence once corporate changes at Friends Life finalised (merging with Aviva) |
| 12 | 2016 Triennial Valuation | <ul style="list-style-type: none"> • Initial outcome at Fund level • Disseminate individual outcomes to employers | 4Q16 4Q16/1Q17 |
| Investment Strategy | | | |
| 13 | Implement changes to the Investment strategy maintaining compliance with the Fund's Investment Principles and Policies | <p>Potential projects</p> <ul style="list-style-type: none"> • Liability Driven Investing • Use of tactical allocation ranges • Review decision to hedge foreign exchange exposure | Start 2Q15 Start 3Q15 Start 2Q15 |
| 14 | Retender Vote Monitoring contract | <ul style="list-style-type: none"> • Re-tender contract for start 1 Feb 2016 | Start 3Q15 |
| Governance | | | |
| 15 | Review governance arrangements following creation of Pension Board | <ul style="list-style-type: none"> • Review appointment of Independent Investment Advisor | 2015/16 |
| 16 | Ensure Committee members have knowledge and skills required | <ul style="list-style-type: none"> • Training for new members • Committee training <ul style="list-style-type: none"> ○ Liability driven investing ○ Interim valuation ○ TPR Codes of Practice & Improvement Plan | Start after May 2015 1Q16 4Q15 2Q15 |
| 17 | Potential changes to the structure of LGPS funds | <ul style="list-style-type: none"> • Engage in any consultations • Assess implications for the Fund if any proposals put forward | ongoing |
| 18 | Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board | <ul style="list-style-type: none"> • Determine reporting requirement for both boards • Support education and training needs as required | 2015/16 |
| 19 | Independent Members on Committee | <ul style="list-style-type: none"> • Current term of the two Independent Members ends 31 May 2017 • Appoint at least one new independent member | Start October 2016 |

Budget and Cash Flow Forecast

APPENDIX 4A

Three Year Budget

| | Budget for 2014/15 £ | Forecast 2014/15 £ | Budget 2015/16 per 2014/15 3 year budget £ | Budget 2015/16 £ | Budget 2016/17 £ | Budget 2017/18 £ |
|------------------------------------|----------------------------|--------------------------|---|------------------------|------------------------|------------------------|
| Investment Expenses | 69,400 | 69,400 | 70,800 | 68,400 | 68,800 | 70,200 |
| Administration Costs | 78,500 | 78,500 | 77,000 | 68,400 | 66,700 | 68,100 |
| Communication Costs | 90,100 | 46,400 | 72,200 | 67,800 | 69,100 | 70,500 |
| Payroll Communication Costs | 81,100 | 81,100 | 82,700 | 76,600 | 78,100 | 79,600 |
| Information Systems | 255,800 | 255,800 | 242,000 | 268,200 | 255,100 | 260,200 |
| Salaries | 1,525,300 | 1,450,300 | 1,555,900 | 1,501,300 | 1,493,000 | 1,522,800 |
| Central Allocated Costs | 425,900 | 425,900 | 432,000 | 402,100 | 410,200 | 418,400 |
| IT Strategy | - | - | - | 147,600 | 155,500 | 86,300 |
| Recharges Admin | (142,500) | (142,500) | (145,400) | (221,800) | (226,600) | (222,300) |
| Total Administration | 2,383,600 | 2,264,900 | 2,387,200 | 2,378,600 | 2,369,900 | 2,353,800 |
| Governance Costs | 252,600 | 277,600 | 186,000 | 270,500 | 205,700 | 209,800 |
| - Members' Allowances | 39,100 | 39,100 | 39,900 | 40,000 | 40,800 | 41,600 |
| - Independent Members' Costs | 18,900 | 18,900 | 19,300 | 19,300 | 19,600 | 20,000 |
| Compliance Costs | 331,100 | 331,100 | 337,700 | 428,000 | 531,300 | 414,500 |
| Compliance Costs recharged | (191,000) | (191,000) | (194,800) | (250,000) | (255,000) | (260,100) |
| Governance & Compliance | 450,700 | 475,700 | 388,100 | 507,800 | 542,400 | 425,800 |
| Global Custodian Fees | 82,500 | 82,500 | 84,100 | 84,100 | 85,800 | 87,500 |
| Investment Manager Fees | 15,978,700 | 15,513,000 | 17,447,600 | 18,532,300 | 18,902,900 | 19,281,000 |
| Investment Fees | 16,061,200 | 15,595,500 | 17,531,700 | 18,616,400 | 18,988,700 | 19,368,500 |
| NET COST OF FUND | 18,895,500 | 18,336,100 | 20,307,000 | 21,502,800 | 21,901,000 | 22,148,100 |
| Pensions Board | - | - | - | 37,400 | 37,500 | 37,800 |
| TOTAL COST TO FUND | 18,895,500 | 18,336,100 | 20,307,000 | 21,540,200 | 21,938,500 | 22,185,900 |

| Cash Flow Forecast | | Estimated Out-turn 2014/15 £'000 | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|--|-----------|--|------------------|------------------|------------------|
| Cash Balance 1st April | | 19,701 | 38,000 | 13,780 | 1,916 |
| Outflows | | | | | |
| Benefits | Pensions | (120,765) | (123,869) | (129,664) | (135,654) |
| | Lump sums | (36,238) | (33,890) | (34,568) | (35,260) |
| Administration costs & Management Fees | | (7,404) | (5,765) | (6,006) | (6,259) |
| Total Outflows | | (164,407) | (163,524) | (170,238) | (177,173) |
| Inflows | | | | | |
| Deficit recovery | | 84,198 | 7,278 | 10,259 | 46,272 |
| Future service Contributions | | 117,137 | 116,784 | 122,871 | 124,100 |
| Total Contributions | | 201,335 | 124,062 | 133,131 | 170,372 |
| Net Cash Flow (excluding Investment income) | | 36,928 | (39,462) | (37,107) | (6,800) |
| Investment income received as cash | | 15,243 | 15,243 | 15,243 | 15,243 |
| Net Cash Flow (Out-Flow) | | 52,170 | (24,220) | (21,864) | 8,442 |
| Transfer to / from non cash investments | | (33,871) | | 10,000 | |
| Cash balance at 31st March | | 38,000 | 13,780 | 1,916 | 10,358 |
| Note : Transfers in and out assumed to net to zero | | | | | |
| : Administration costs include administration expenses plus Investment Management Fees that are invoiced | | | | | |

-224000
71400
147700

SERVICE PLAN 2015 – 2018

A three year budget for 2015 to 2018 is included as Appendix 4A.

The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include compliance and governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

The proposed budget is a continuation of the 2014/15 budget with savings made through increased efficiency without compromising service delivery. The cost of inflation has been absorbed wherever possible. Some of the savings have been reinvested in the IT Strategy to achieve further efficiencies in the future.

Administration Budget

The table below shows the change from the Administration Budget for 2014/15 to the Administration budgets for 2015/16 to 2017/18.

| | 2015/16 | 2016/17 | 2017/18 |
|--|------------------|------------------|------------------|
| 2014/15 Administration Budget | 2,383,600 | 2,383,600 | 2,383,600 |
| Changes to 2014/15 Administration Budget : | | | |
| Additional responsibilities & Regulation | | | |
| GMP reconciliation | 34,300 | - | - |
| LGPS Advisory Board Levy and increased subs | 3,100 | 3,200 | 3,200 |
| | | | |
| Inflation and pay pressures | | | |
| Pay | 20,900 | 61,900 | 93,700 |
| non pay assume 1% (exc man' fees) | 13,100 | 13,400 | 13,600 |
| Central Charges | - | 8,200 | 16,500 |
| | | | |
| Efficiency savings | | | |
| Communications | - 26,900 | - 24,700 | - 22,400 |
| Training | - 29,000 | - 28,700 | - 28,300 |
| Staff secondments and retirement | - 130,300 | - 145,900 | - 148,800 |
| Recharges | - 28,600 | - 32,500 | - 27,100 |
| Absorption of inflation and other savings | - 9,200 | - 24,200 | - 16,500 |
| Net saving on existing administration costs | - 152,600 | - 169,300 | - 116,100 |
| | | | |
| IT Strategy | | | |
| Training | 5,000 | 10,000 | 5,000 |
| Systems & website development | 50,000 | 80,000 | 27,000 |
| Consultancy and Set Up | 54,100 | 5,000 | 5,000 |
| Support and Maintenance | 18,000 | 19,500 | 7,500 |
| Salaries | 20,500 | 41,000 | 41,800 |
| | 147,600 | 155,500 | 86,300 |
| | | | |
| Net change in Administration Budget after IT Strategy | - 5,000 | - 13,800 | - 29,800 |
| Total Administration Budget | 2,378,600 | 2,369,800 | 2,353,800 |

The 2015/16 savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Savings have been found across the budget, including, where possible, the absorption of the effect of inflation. This has resulted in gross savings of £224,000. Some

of these savings have been used to meet new demands particularly on pay pressures and the need for Guaranteed Minimum Pension reconciliation. Most of the remaining savings made in 2015/16 are recommended to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years.

Scheme Administration

1. Salaries

There is a net reduction in salary costs of £88,900 (including some salaries within the IT Strategy). A gross saving of £130,300 is the result of partially seconding the Payments, Communications and Systems Manager to People Services and by not directly replacing the Pensions Manager after their anticipated retirement. (The internal secondment results in reduced costs as opposed to increased recharges). These savings have partially been offset by the cost of the pay award, increments, changes in National Insurance and Pension contributions, and the staffing requirements of the IT Strategy.

The 2014/15 increase in pay rates is followed by an assumed 1% increase in 2016/17 and 2% in 2017/18. These will be reviewed in the preparation of the next three year budget.

2. Investment Expenses and Administration

Savings in the training budget have been achieved by bringing the management of training within the Fund and by making greater use of the Council's in house courses. This has been possible following the successful completion of external courses and the greater availability of courses available from the Council. Part of the savings on the training budget will be used to provide the necessary training relating to the IT Strategy.

There have also been savings on printing costs following the establishment of new arrangements with the Council. These savings have been partially offset by increases in the budget for subscriptions. There is also an additional £3,000 budget in 2015/16 for AVC Monitoring.

3. Communications and Payroll Communications

The increased use of electronic means of delivery has allowed savings of £22,300 to be made in Communications. In Payroll Communications new arrangements around the use of Postal services will produce savings of £4,500.

4. Information Systems

The Information Systems budget has been increased to meet additional IT costs. However part of this will be recharged to Avon Fire and Rescue as it relates specifically to Fire Fighters pensions.

5. Central Allocated Costs

Central Allocated Costs for Accommodation, IT, Financial Management etc. have been reduced by £5,800 when compared with the 2014/15 budget level. Further savings have been made following new arrangements for more closely sharing the management and provision of training with the Council. There will be an ongoing review of central charges through 2015 to ensure the Fund receives value for money.

6. IT Strategy

Over the three years the IT Strategy is proposed to be funded from savings in the existing budget. The projected costs, indicative at this stage, include the initial use of

consultants, systems set up, development support and maintenance, training, and the cost of additional support staff salaries.

7. Administration Recharges

The budget for income has been increased by £79,300. This is largely due to the recharging of the salary costs for a Senior Projects officer seconded to Bristol City Council. There is also £10,100 due to increases in recharges for administrative services that are calculated on agreed formulae that include the rate of inflation and £6,000 as a result of a forecast increase in the number of recharges of pension sharing costs.

Governance and Compliance

8. Governance

The budget has been increased by £19,200 partly to provide the necessary training for new members of the Committee who will be joining after May. The provision for consultants advising on the Hedge Fund review has been removed and the provision for consultants assisting with tendering has been reduced. These savings have been offset by the provision for advice on Liability Driven Investments and other ad hoc consultants reports.

9. Compliance costs and Compliance costs recharged

The budget includes an additional £30,000 to meet the actuarial costs of the interim valuation. Legal fees are incurred as they are required. The budget has been increased by £10,000 to reflect the increased requirement for legal work that was experienced during the current year.

The budget also includes provision for any other Actuarial Fees incurred either for the Fund or for the benefit of specific employers. Wherever these fees can be recharged the recharges include an allowance for the time spent by the Fund in preparing data for the actuarial work. The budget reflects the forecast that the volume of non-rechargeable work will increase. Increased expenditure on actuarial fees relating to FRS17 / IAS19 disclosures will be recovered through recharges to those employers that require the statements.

Investment Fees

10. Investments fees

Expenditure on investment management is subject to the performance of the investment assets. The investment management fees budget is based on the assumption that there will be a 6% increase in asset values during 2015/16, i.e. the investment objective will be achieved; conversely if this is not the case then fee levels will be lower.

The increase in fees over the 2014/15 budget is due to a number of changes in the investment structure some of which are as a result of decisions made by the Committee and Panel. The fees for one of the Diversified Growth Funds (DGF) increased following the appointment of a new manager. The assets under the currency hedging programme have increased more than 6% so the fee base is higher than the current budget. The rate of investment in the overseas property portfolio has significantly increased over the year from £113m to £151m and now that the portfolio is more fully invested, future fees can be estimated more accurately. These additional fees are partly offset by the reduction in fees relating to the former managers (low cost passive portfolios) from whom the funding for these investments is being taken.

There is also a provision for performance fees where they are expected to be incurred during the year.

The Pensions Board

The Pension Fund is required to fund the costs of the Pensions Board. The Board is expected to become operational by July 2015. An initial budget for the operation of the Board is set out below. The budget has been prepared on the assumption that the Board will have six members plus a chair person and will meet four times in the first year. The members will require training in the specialised areas over which they will be presiding.

Pensions Board

| | 2015/16 |
|--|----------------|
| Chairman's Allowance & Member's Expenses | 11,600 |
| Training | 6,000 |
| Meetings | 6,000 |
| Officer Support | 12,800 |
| Communications | 1,000 |
| | 37,400 |