

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	27 March 2015
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 JANUARY 2015; (2) PERFORMANCE INDICATORS 3 MONTHS TO 31 December 2014; (3) SUMMARY PERFORMANCE REPORT TO 31 December 2014
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:	
Appendix 1	Summary Financial Accounts: Ten months to 31 January 2015
Appendix 1A	Summary Budget Variances: Ten months to 31 January 2015
Appendix 2	Cash flow forecast to 31 March 2015
Appendix 3A	Balanced Scorecard : 3 months to 31 December 2014 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for <i>selected</i> items
Appendix 4	Customer Satisfaction Feedback in the 3 months to 31 December 2014 (<i>Retirements from ACTIVE and DEFFERED status</i>)
Appendix 5	Active membership statistics over 42 months to 31 December 2014
Appendix 6	Joiners & Leavers statistics over 14 months to 31 December 2014
Appendix 7	Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 31 December 2014 (including late payers). Annex 1 current quarter, Annex 2 timeline
Appendix 8	Risk Register

1 THE ISSUE

- 1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 10 months to 31 January 2015 and of the cash flow forecast to 31st March 2015. This information is set out in Appendices 1 and 2.
- 1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 December 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 December 2014 as well as the Risk Register.

2 RECOMMENDATION

That the Committee notes:

- 2.1 Administration and management expenditure for 10 months to 31 January 2015
- 2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 December 2014
- 2.3 Summary Performance Report for period from 1 April 2011 to 31 December 2014,
- 2.4 Risk Register.

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

- 4.1 The summary Financial Accounts for the 10 months to 31 January 2015 are contained in **Appendix 1**.
- 4.2 The forecast for the year to 31 March 2015 is for net expenditure to be under budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £120,000. This is partly due to savings on salaries resulting from the temporary partial secondment of the payroll manager and support officer to the Council's payroll section to provide support while they undertake a major project. Those parts of their roles that they no longer cover are being temporarily covered by other members of the management team. Further forecast savings on salaries are due to the temporary secondment of the Projects Officer to Bristol City Council to assist their payroll team on pension matters. There are also forecast savings in communication costs through the greater use of digital technology. In that part of the budget that is not directly controlled, expenditure is forecast to be under budget by £440,000. The increase in compliance cost is due to the additional actuarial costs of responding to the circumstances of particular employers. These costs have been recharged to employers wherever possible, offsetting the increased expenditure. The reduced spending against budget on Investment management fees is largely because it is unlikely that any fees will be payable on the infrastructure mandate during 2014/15.
- 4.3 Explanations of the most significant variances are contained in **Appendix 1A** to this Report.

5 CASH FLOW FORECAST

- 5.1 Since September the Pension Fund Administration report has included a cash flow forecast for the year. 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 change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows will be managed by taking more income from the investment portfolio and possibly divestments. Details of the cash flow forecast for the whole Fund are given in **Appendix 2**.
- 5.2 The original cash flow forecast included in the 2014-2017 Service Plan was prepared before all the advance payments of deficit contributions (for 2014/15 to 2016/17 of c. £80m) were confirmed. The forecast assumed a lower level of advance payments for 2014/15 to be paid in April. The receipt of a greater level of advance payments, some covering the 3 years, has resulted in a net cash in-flow to 31 January of £52.5m above the forecast. The net in-flow above forecast for the full year to 31 March 2015 falls to £43.8m as the advance payments unwind during the year.
- 5.3 In addition to the increased receipts of deficit contributions (following the 2013 valuation) there has also been a small increase in future service contributions but this has been largely offset by an increase in retirement lump sums and regular pensions paid. These were partly a result of the high level of redundancy retirements at the end of March. The above forecast outflow on Administration costs is due to an

increase in the Investment Manager fees paid by cash as opposed to being deducted by the Manager. The increased inflow from Investment income has been arranged to meet the demands of the Fund becoming cash flow negative.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 31 December 2014

6.1 The information provided in this report is consistent with the methodology applied to the Council generally but has been customised to reflect the special circumstances of the Avon Pension Fund. Full details of *performance against target*, in tabular and graph format, are shown in **Appendices 3A and 3B**.

7 ADMINISTRATION PERFORMANCE

7.1 The level of work outstanding from tasks set up in the period (Item C4 and graphs 4-6 of **Appendix 3A and 3B**) in the 3 month period is reported by showing what *percentage* of the work is outstanding. In this period 7682 new cases were received and 6920 were cleared. As a snapshot, at 31 December 2014 there were 3372 cases outstanding of which 26% represents actual workable cases and 74% represents cases that are part complete, pending a third party response.

7.2 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 December 2014 - Retirements

Appendix 4 reports on the customer satisfaction based on 84 questionnaires returned from members retiring from both active and deferred status (out of a total of 209 questionnaires issued in respect of the reporting period). 96% reported that the information provided by the Fund was both clear and concise with 90% rating the service as good or excellent.

8 LEVEL OF OPT OUTS FROM THE SCHEME

8.1 Reports indicate that 0.14% of active membership with more than 3 months service opted out over the period to 31 December 2014.

8.2 The position on opt outs will continue to be monitored. A report will also be developed to report on the number of members electing for the 50/50 scheme. Early indications are that the 50/50 option has had little take up to date. The exact figures should be available at the next Committee.

9 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS

9.1 Active Membership figures in graph format are included as a standard item for Committee meetings to monitor the trend in member movements at this volatile time when higher than normal level of 1) redundancies and 2) potential opt-outs by members concerned about scheme changes.

9.2 The active membership statistics are shown in graph format in **Appendix 5** and the numbers of joiners and leavers feeding into this also in graph format in **Appendix 6**

9.3 The Committee will be kept informed of the on-going changes and the effect it is having on Scheme membership. In the event that the funding position of the Scheme is significantly affected this will also be reported.

10 SUMMARY AVON PENSION FUND & EMPLOYER PERFORMANCE

10.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is sent monthly to each of the four unitary authorities to report on their own and APF's administration performance against agreed targets set in the SLA.

10.2 A summary report to the Committee is a requirement of the Pensions Administration Strategy. The Report for the period to 31 December 2014 is included as **Appendix 7**.

10.3 The Report discloses any poor performing employers which need to improve. It is important that the Committee are made aware of these going forward and the steps taken to assist these employers in improving their performance to avoid the imposition of additional charges

10.4 **Appendix 7** contains:

10.5 Bar charts for APF and each of the four Unitary Authorities and collectively 'Other' employers reporting an event during the period. Performance against retirements and early leavers is measured against agreed SLA targets. **Annex 1** shows achievement within target over the current quartile. **Annexes 2 and 3** are comparator reports over the previous 4 year period.

10.6 Report on any late pension contributions by employers to the Fund due for the 3 months to 31st January 2015.

11 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

- The introduction of a new way of allocating work using 'Work Buckets'. This enables managers to better target specific types of work, to cope with peaks and troughs and make better use of the staff resources available
- Calculation of survivor benefits have been passed from Pensions Payroll to Benefits Administration
- Following the introduction of the CARE scheme new procedures have been introduced for linking and aggregation of membership within the Fund. Some further amendments are now needed due to CLG recent confirmation that the final salary link will not be retained if benefits are not linked.
- Year End project is under way to guide the Fund and scheme employers through the first year end process for the CARE scheme
- Training sessions have been held for employers to explain the new process for year end. 113 employers have attended over 5 separate sessions. Feedback has been very good about the sessions
- Initial reports and plans have been put in place to demonstrate that we are working towards compliance with The Pension Regulator requirements effective from April 2015.

The Fund is continuing to progress towards complete digital receipt of member data

11.1 Employer Self Service: Update

As at 30th December 2014 60% of employers had received full training on ESS data submission – representing approx. 75% of total scheme membership.

11.2 *i-Connect*

11.3 Considerable work has been undertaken by APF to ensure that thei-Connect product is fit for purpose. With technical changes brought about by the introduction of New LGPS 2014 and on-going work required to resolve historic issues with employer data extracts a temporary project team has been set up to work with both employers and the soft-ware provider to ensure a robust process and set of procedures is signed off and operational. All four unitary authorities have signed agreements to use i-Connect and currently two are sending monthly returns. A further two medium sized employers are currently in discussion. For the two authorities not currently sending returns:-

11.4 **South Gloucester Council** is in the final stages of data extract testing and is expected to go 'live' in April 2015.

11.5 **Bath & North East Somerset Council** is in the final stages of replacing its HR & Payroll service. Due to in-house staff expertise required to support this exercise a decision was made to suspend i-Connect for the relevant period until the new system is in operation and required extract reports have been re-written. Avon Pension Fund is in discussion with B&NES regarding a probable timeframe to return to i-Connect and this will be reported at the next Committee. Key member data will continue to be supplied via an alternative EDI process during the interim period.

12 RISK REGISTER

12.1 The Risk Register follows the format of the Council's risk register for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

12.2 The Risk Register is reviewed regularly by the pension management team. The risks identified fell into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information
- (ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance
- (iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence
- (iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team
- (v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

12.3 The Fund has invested significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

12.4 The Register has been updated this quarter to reflect The Pension Regulator's compliance requirements and the changes allowing members to access their pension "pot" after age 55 years. The Register is reviewed regularly by the management team and reported to Committee annually or when there is a change in significant risks.

12.5 The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 8**.

13 RISK MANAGEMENT

13.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes

are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

14 EQUALITIES

14.1 No items in this Report give rise to the need to have an equalities impact assessment.

15 CONSULTATION

15.1 None appropriate.

16 ISSUES TO CONSIDER IN REACHING THE DECISION

16.1 There are no other issues to consider not mentioned in this Report

17 ADVICE SOUGHT

17.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips Finance & Systems Manager (Pensions) (<i>Budgets</i>) Tel: 01225 395259. Geoff Cleak, Acting Pensions Manager (<i>All except budgets</i>) Tel: 01225 395277
Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	