

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	25 SEPTEMBER 2015
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 JULY 2015; (2) PERFORMANCE INDICATORS 3 MONTHS TO 30 June 2015; (3) SUMMARY PERFORMANCE REPORT to 30 June 2015
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:	
Appendix 1	Summary Financial Accounts: Year to 31 July 2015
Appendix 1A	Summary Budget Variances: Year to 31 July 2015
Appendix 2	Cash Flow Forecast
Appendix 3A	Balanced Scorecard : 3 months to 30 June 2015 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for <i>selected</i> items
Appendix 4	Customer Satisfaction Feedback in the 3 months to 30 June 2015 (<i>Retirements from ACTIVE and DEFFERED status</i>)
Appendix 5	Active membership statistics over 12 Months to 30 June 2015
Appendix 6	Joiners & Leavers statistics over 12 Months to 30 June 2015
Appendix 7	Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 30 June 2015. 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 4 months to 31 July 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 30 June 2015 and Summary Performance Reports on Employer and APF performance over 4 years to 30 June 2015 as well as the Risk Register.

2 RECOMMENDATION

That the Committee notes:

- 2.1 Administration and management expenditure incurred for 4 months to 31 July 2015
2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 30 June 2015.
2.3 Summary Performance Report for period from 1 July 2011 to 30 June 2015.

That the Committee agrees:

- 2.4 To review the full risk register once a year
2.5 To review the top 10 risks and changes quarterly

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 4 months to 31 July 2015 are contained in **Appendix 1**.

The forecast for the year to 31st March 2016 is for expenditure to be £97,000 over budget. Within the directly controlled Administration budget expenditure is forecast to be £10,000 below budget. The forecast reduction in directly controlled expenditure results from the delay in appointing staff to assist in the GMP data reconciliation project.

In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £107,000. This overspend all relates to Investment manager fees. The increased spending is due to higher performance related fees payable in 2015/16 than was anticipated in the budget which is partially offset by savings on hedge fund manager fees following the appointment of a new manager/mandate.

- 4.2 At the June committee meeting the need to shift resource requirements from administration to compliance was discussed. This was also discussed in the service plan at March Committee but at that stage we were not in a position to specify the requirements at that point. With the growth in employers (currently 213) there has been a significant increase in valuation work and this is set to continue as it is expected more schools will become academies and Councils continue to explore outsourcing options given current government policies.
- 4.3 The Fund is also doing significantly more work on covenant to secure sustainable employer contributions and work on the 2016 valuation will begin in earnest in the late autumn 2015. In view of this there is a need for an increase in the resources in this area to support the Valuation Advisor. The extra cost can be contained within the current budget envelope for the Fund as it will be delivering some of its IT Developments at lower cost than originally envisaged, and in the current year there are some staff savings in investment team.
- 4.4 Explanations of the most significant variances are contained in Appendix 1A to this Report.

5 CASH FLOW FORECAST

- 5.1 The Service Plan includes a cash flow forecast which is monitored within this report. 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 are managed by taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2**.
- 5.2 The 2015-2018 Service Plan included a cash flow forecast showing a net outflow in 2015/16 of just over £24m.

The actual cash flow to 31 July was a net inflow of £10m against a budgeted outflow of £8m for the same period. The variance was due to the receipt of a large termination deficit payment from an employer exiting the Fund and the payment by some employers of annual deficit recovery contributions in full in April instead of in monthly instalments. Lump sum payments were also lower than expected while investment income received as cash was higher than budgeted.

The current forecast for the full year is for a net outflow of £7m against a budgeted outflow of £24m. The forecast variances of £17m over the whole year are mainly due to the termination deficit payment and lower than expected lump sum payments. These are forecast to be partially offset by lower than budgeted investment income received as cash and the bulk transfer payment relating to Probation Service members transferring to the Greater Manchester Fund.

The effect of the advance payment of deficit contributions for the year in April unwinds during the year and so has no effect overall in the full year.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 30 June 2015

- 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 7598 new cases were received and 7234 were cleared. As a snapshot, at 30 June 2015 there were 3428 cases outstanding of which 31% represents actual workable cases and 69% represents cases that are part complete, pending a third party response.

7.2 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30 JUNE 2015 - Retirements

Appendix 4 reports on the customer satisfaction based on 49 questionnaires returned from members retiring from both active and deferred status (out of a total of 330 questionnaires issued in respect of the reporting period). 100% of deferreds rated the service as good or excellent, with 83% of actives rating the service as good or excellent.

8 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS

- 8.1 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.
- 8.2 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**
- 8.3 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.

9 SUMMARY AVON PENSION FUND & EMPLOYER PERFORMANCE

9.1 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.

9.2 A summary report to the Committee is a requirement of the Pensions Administration Strategy. The Report for the period to 30 June 2015 is included as **Appendix 7. (Annex 1,2 &3)**

9.3 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

9.4 **Appendix 7** contains:

9.5 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 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

- Following the Governments introduction from 1st April 2015 of Freedom and Choice in Pensions the Fund has undertaken a review of its processes to ensure compliance. In the reporting period there have been 177 transfer requests and 13 paid out, none of which we were under pension freedoms.
- The Year End project was successfully completed at the end of June, which enabled the Annual Benefit Statements for members to be run and distributed.
- The Annual Benefit Statement distribution to all deferred and active members was successfully completed by the regulation set deadline of 31 August.
- Our moves to becoming a digital fund are moving forward with over 10% of membership now signed up to 'my pension online' (almost 9,000 members).
- 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. A suite of reports has been developed and reported as a separate item at this meeting

10.1 Employer Self Service: Update

As at 30 June 2015 60% of employers had received full training on ESS data submission – representing approx. 75% of total scheme membership.

10.2 i-Connect

10.3 Work is continuing to ensure that the i-Connect middleware is fully integrated with the four unitary authorities. 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 dedicated resource has been identified 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 successfully sending monthly returns, although North Somerset returns are only up to April 2015. A further two medium sized employers are currently in discussion to take the software in the near future. For the two unitary authorities not currently sending returns:-

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

10.5 **Bath & North East Somerset Council** has just replaced 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 for re-introduction which is likely to be late October 2015. Key member data will continue to be supplied via an alternative EDI process during the interim period.

11 RISK REGISTER

11.1 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.

11.2 The Risk Register is reviewed regularly by the pension management team. Risks identified cannot be eliminated but can be treated via monitoring.

11.3 The risks identified fall into the following general categories:

- (i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – 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

11.4 The Fund continues to invest 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.

11.5 The Fund proposes that the Committee review all risks annually and the top 10 risks and changes quarterly.

11.6 A summary sheet of all risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 8**.

12 RISK MANAGEMENT

12.1 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.

13 EQUALITIES

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

14 CONSULTATION

14.1 None appropriate.

15 ISSUES TO CONSIDER IN REACHING THE DECISION

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

16 ADVICE SOUGHT

16.1 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.

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Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	