

Avon Pension Fund Service Plan 2014 - 2017

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1. INTRODUCTION

The Local Government Pension Scheme continues to face its most significant changes for many years that will impact financially and operationally on all areas of the Avon Pension Fund and its Employing Bodies. The Public Service Pensions Act 2013 sets out the principles for all public sector schemes. The changes to the LGPS will be effective from 1 April 2014 and will affect contributions, benefits and accessibility to pensions. In addition, the 2013 valuation has led to increases in contributions at a time when the funding environment for many of the employing bodies will continue to be challenging over the 3 years of this Service Plan.

During 2013-14 the Government launched two major reviews of the LGPS. Firstly, to comply with the Public Service Pensions Act 2013, there will be changes to the governance framework for LGPS funds. At the national level a National Scheme Advisory Board has been established to set and monitor governance standards across the local funds and to advise the DCLG on changes to the scheme and regulations. In addition, LGPS funds will have to create local Pension Boards to assist the administering authority with complying with scheme regulations. These new arrangements will need to be in place from 2015.

Secondly, the Local Government Minister has begun a "root and branch" review of the structure of the 89 local LGPS funds in England with the intention of announcing the "direction of travel" in May /June 2014. Whilst this could mean significant structural change, especially in how the investments could be managed, it may be limited to encouraging greater collaborative investing via Collective Investment Vehicles and framework agreements. Once the direction of travel is known the Committee will assess the implications it could have for the management of the Fund.

Increasing longevity pressures together with reductions in public sector funding means affordability remained the focal point for the 2013 valuation. Whether the new scheme has the desired effect on costs in the long term remains to be seen but in the short term the cost of funding pensions has continued to rise due to the effect of historically low government bond yields on the discount rate used to value liabilities. The savings arising from the changes to the benefits structure from 2014 have been taken account in the 2013 Valuation by the actuary. However, some employers have experienced additional costs, not savings, from the new scheme due to their membership profile.

These changes and potentially new initiatives come on top of existing pressures. The new scheme coupled with the implementation of auto-enrolment is putting severe pressure on the administration of both the Fund and employers. The number of employers continues to increase exponentially as Local Authorities divest themselves of services through outsourcing and the creation of academies removes schools from LEA control (there are now over 70 academies in the Fund). The number of employers in the Fund has increased by two-thirds in the last decade and continues to rise. The level of diversification required to manage risk within the investment portfolio has increased the number of fund managers to three times its level in 2006, a period during which the level of scrutiny of the Fund, through regulation and its own governance arrangements, has also increased significantly. Against the background of public sector cuts, the Fund is dealing with the financial difficulties faced by some of its smaller Employers, as well as an increase in demand for information as employers downsize and alter the way they deliver services. In 2013-14 the level of contributions paid into the Fund continued to fall at the same time that pension payments increased. This has caused the Fund to move into negative cashflow which has been led to changes in the investment strategy.

In the main the Fund has coped extremely well with all these challenges. In 2012/13 the Fund took significant steps to prepare for the changes to come which have been embedded during 2013-14, with extra resources in place in both the administration and investments teams.

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Following the review of its Investment Strategy in 2012-13, a number of changes to the investment portfolio have already been implemented and further changes will be completed during 2014-15.

The revised structure of the administration team will ensure it can continue to deliver a high quality service to members and employers in recognition of the new changing world ahead. The establishment of a Data Management Quality Control (DMQC) team from March 2013 has significantly improved data quality and streamlined processes. The team has responsibility to quality assess member data and clear errors to ensure that the Fund will meet the stringent minimum data quality requirements being brought in April 2015 policed by The Pensions Regulator whose remit has been significantly extended to cover public sector schemes.

The ground work for full electronic delivery of member data changes was laid in 2012 with the purchase of new middleware to enable bulk **automatic monthly** updating of changes to the Fund's pension database for larger employers (i-Connect) and the roll out of Employer Self Service for other employers to facilitate their on-line update of changes. As a result of the establishment of DMQC team, during 2013/14 considerable progress has been made in working with employers with regard to the Funds objectives as set out under the Pensions Administration Strategy of achieving total electronic data transfer. As such, 72% of the Funds membership is now covered by electronic data submission. In addition, 58% of all forms of notification from employers are now received electronically. The upward trend towards total electronic data transfer will advance further over the next year as the Fund continues to invest time and resource in both maximising technological development and improving working processes and procedures, engaging with all stakeholders to achieve its objectives and cost saving opportunities.

During 2014/15 the Council is moving to new offices which will mean all staff will have to adapt to new, more flexible ways of working. Work processes and procedures will need to be reviewed and adapted where necessary.

The 2014-17 Service Plan builds on last years' plan, identifying how the Fund will implement changes to its strategy and operations in order to continue to deliver services efficiently and that costs remain competitive.

Fire Fighters Scheme

The Pension Section also has responsibility for administering the two existing Fire Service pension schemes for Avon Fire and Rescue Service. This, like the LGPS, will have a new CARE based scheme effective a year later from April 2015. Resource will be required as for the LGPS Scheme to communicate the changes to members and to deal with an additional layer of benefit calculations and new software. In addition, in 2013 the government issued a consultation paper regarding eligibility for retrospective pension rights for Retained Firefighters. Legislation regarding this is expected during 2014 and will require resource to implement this exercise. In view of the relatively small number of Firefighter members it is expected that the existing resource will be able to handle these changes. However, both exercises are likely to impact on administration performance for a short time.

2. KEY OBJECTIVES 2014 -17

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 has proved resource and governance intensive; the Funding Strategy has been developed to ensure there is flexibility to manage affordability but not reduce the solvency of the Fund; the Pensions Administration Strategy has set a direction of travel which is perfectly aligned to the developing environment and work has continued with the Fund's key employers to

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fully realise the benefits for all parties. **Appendix 2** sets out progress made against the key objectives in the 2013-16 service plan.

Within the 2014-17 plan, the first year is particularly busy with the implementation of the new scheme, assessing the impact of governance and structural changes to the LGPS funds and completing the changes to the investment portfolio. The latter years will focus on consolidation, realising efficiencies and developing partnership working.

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

Administration Strategy:

1. To engage fully in all activities relating to the implementation and communication of the New Local Government Pension Scheme. Ensuring all stakeholders are informed of the developing situation
2. To develop further plans addressing all necessary changes to the administration to ensure a seamless transition to the new LGPS in 2014 and new Fire-fighters Pension Scheme in 2015, including systems enhancements and training for both the Fund and its stakeholders.
3. To continue to promote electronic receipt of member data by the availability of on-line updating of member information to employers through *Employer Self Service* and through bulk interfaces through *i-Connect* software.
4. Develop online facilities for receipt of contribution payment information from employers.
5. To carry out a review of working practices and implement necessary changes to support the Office Move in late 2014.
6. Develop and implement 'auto task assignment' software and review working processes and procedures of the Pension Benefits team. Moving away from dedicated employer responsibility to 'one size fits all'. This will support home/remote working arrangements.
7. To progress the move towards electronic delivery of Scheme communications to active members.
8. To redesign and implement the members website area.
9. To improve the quality of member data held to meet The Pension Regulator's minimum legal requirements expected from April 2015. It will also review data changes as they are submitted by employers clearing errors to streamline the work of the Benefits Processing teams.
10. To review the Pensions Administration Strategy, recognising the new arrangements for electronic service delivery and in particular to deal with issues of poor performance.

Funding Strategy:

11. To further develop the covenant assessment monitoring process to support the funding position.
12. To investigate options for insuring ill-health retirement costs for smaller employers within the Fund.
13. To undertake an interim valuation in 2015 to assess how the funding position has evolved at the whole fund level.

Investment Strategy:

14. To implement changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.
15. To develop further the monitoring of the investment strategy and management arrangements in order to support the decision making process.

Governance:

16. To identify opportunities arising from the current review of the structure of the LGPS funds and to embrace partnership opportunities as they arise at both a local and regional level.
17. To review the governance arrangements in light of new governance requirements.
18. To understand The Pension Regulator's Code of Practice, reviewing processes to ensure the Fund can demonstrate compliance.
19. To ensure the Committee is adequately trained in all aspects of the Fund.

Appendix 3 sets out the Key Objectives and targets in the 2014-17 plan.

3. RESOURCE IMPLICATIONS

The 2012-15 service plan strengthened the resources and capacity for the Fund to meet the extra work generated by the new scheme, the increasing number of employers and increasing complexity of the investments strategy. The post of Public Relations & Communications Manager has been introduced to improve the effectiveness of the Avon Pension Fund and promote and facilitate effective communications with stakeholders. This role effectively replaced that of the existing Employer Relations Manager (this role having been absorbed into the Data Management & Quality Control team and Pensions Valuation Advisor).

The entire cost implications of implementing the new scheme arrangements cannot be fully quantified at present, but there are significant IT, communication and training aspects to introducing the new scheme. The additional costs of this change and the costs for implementing the new LGPS Scheme are included in the budget. In contrast the cost saving initiative is progressing to move to full electronic delivery to members.

Once the full extent of the Scheme changes and the roll out of auto-enrolment are understood, proposals may be brought forward to make further changes to the Benefits Section and its support services. This will depend on the effectiveness of the initiatives put in place to manage the extra work.

4. BUDGET & CASHFLOW FORECAST 2014 - 17

The three year budget plan is a continuation of the 2013-14 budget including the developments that were incorporated within it. One off items for 2013-14 have been removed and additional one off items for 2014-15 have been included where necessary in order to maintain the level of service. Savings have been made across the budget and wherever possible the effect of inflation has been absorbed.

Within the directly controlled budget for Administration, Governance and Compliance, there is a proposed saving of £175,000.

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 following the appointment of the Diversified Growth Fund managers and emerging markets equity manager as well as the anticipated appointment of a new Infrastructure Fund manager.

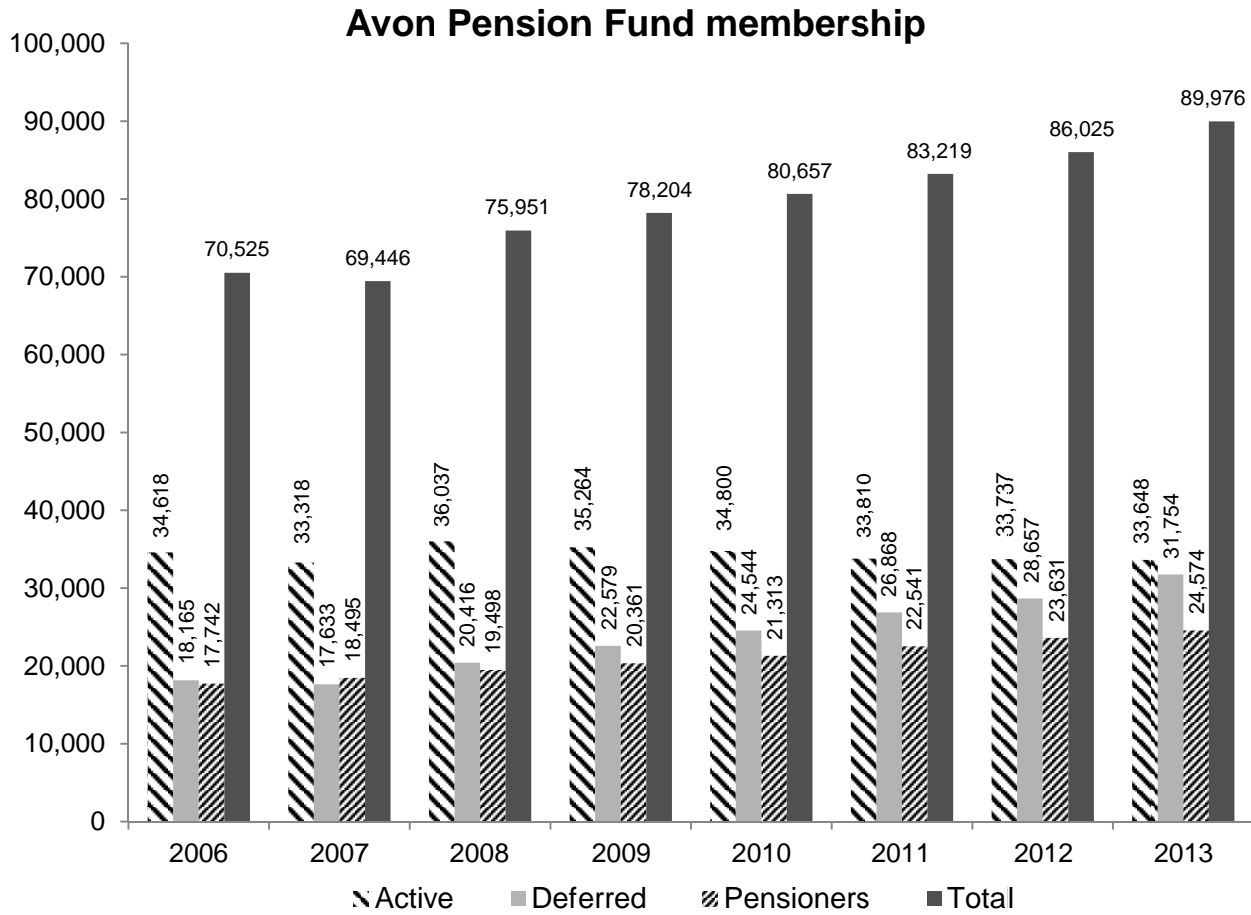
For the first time, this year the budget papers include a three year cash flow forecast for the Fund. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits

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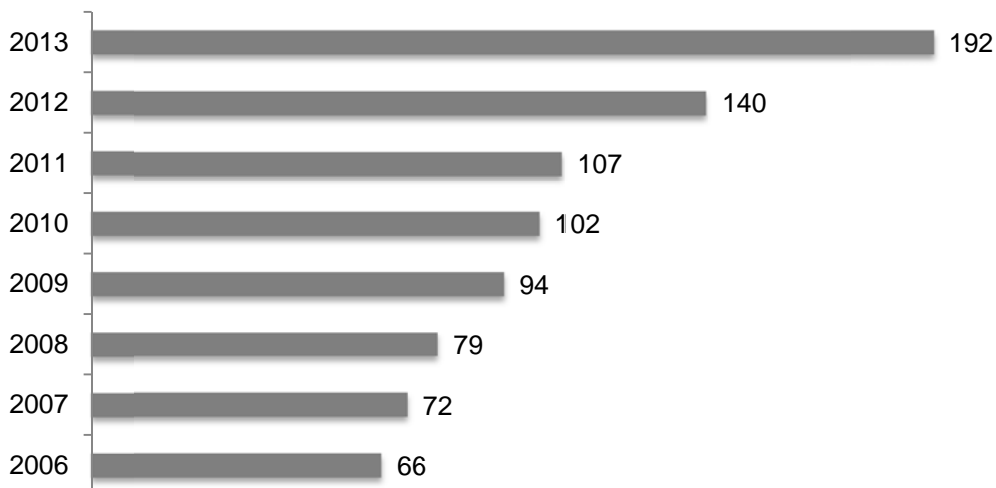
and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecast of cash flows. The cash flow is currently monitored on a monthly basis. The three year forecast shows that the Fund will be cash flow neutral in 2014-15 if, as expected, some employers pay their three year deficit payments up front as a lump sum. In the following two years the Fund will have net cash out-flows of around £17m and £14m respectively. The negative cash flows will be managed by taking more income from the investment portfolio and possibly divestments.

Full details of the budget movements between 2013-14 and 2016-17 together with a cash flow forecast for the whole Fund are given in **Appendix 4A**. A commentary on the budget changes between 201-14 and 2014-15 is given in **Appendix 4B**.

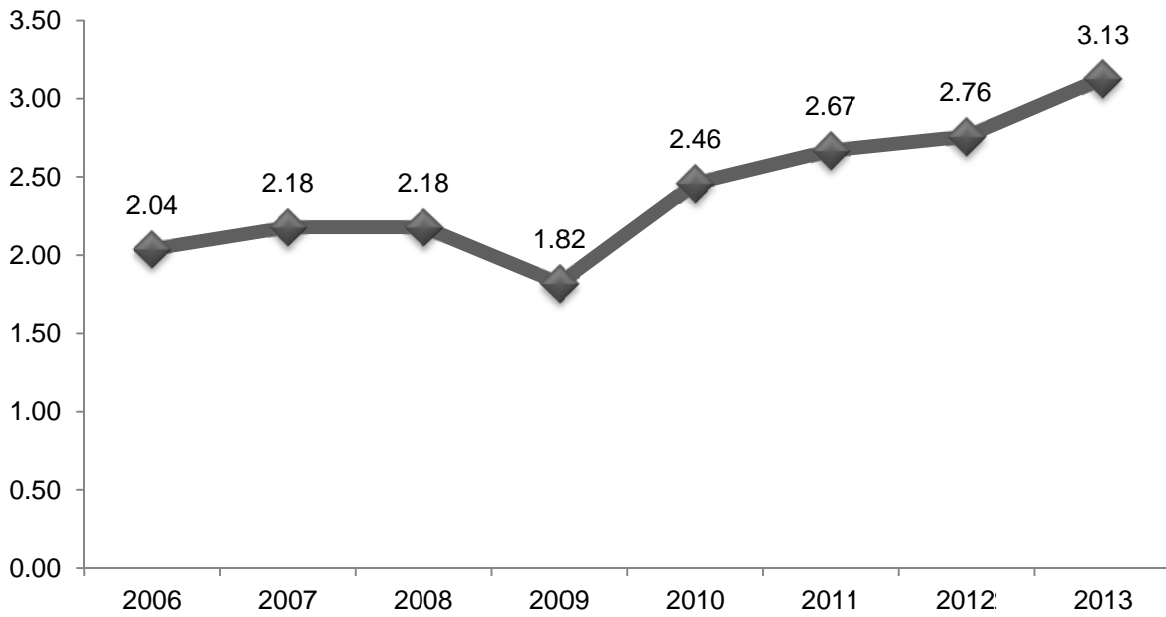
Scope of Avon Pension Fund
(at 31 March 2013)



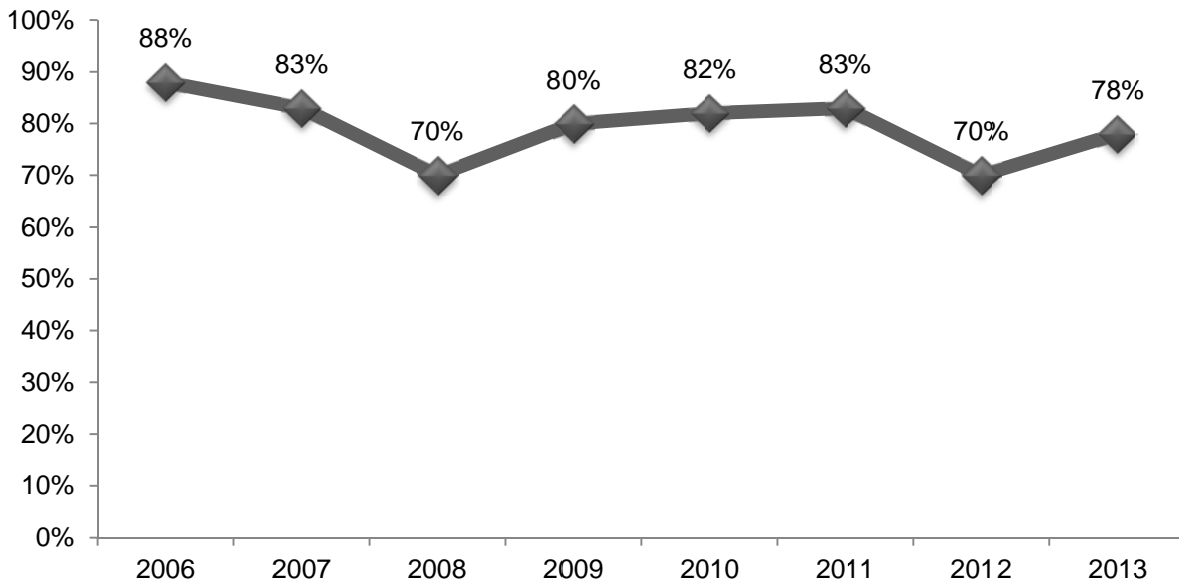
Number of participating employers



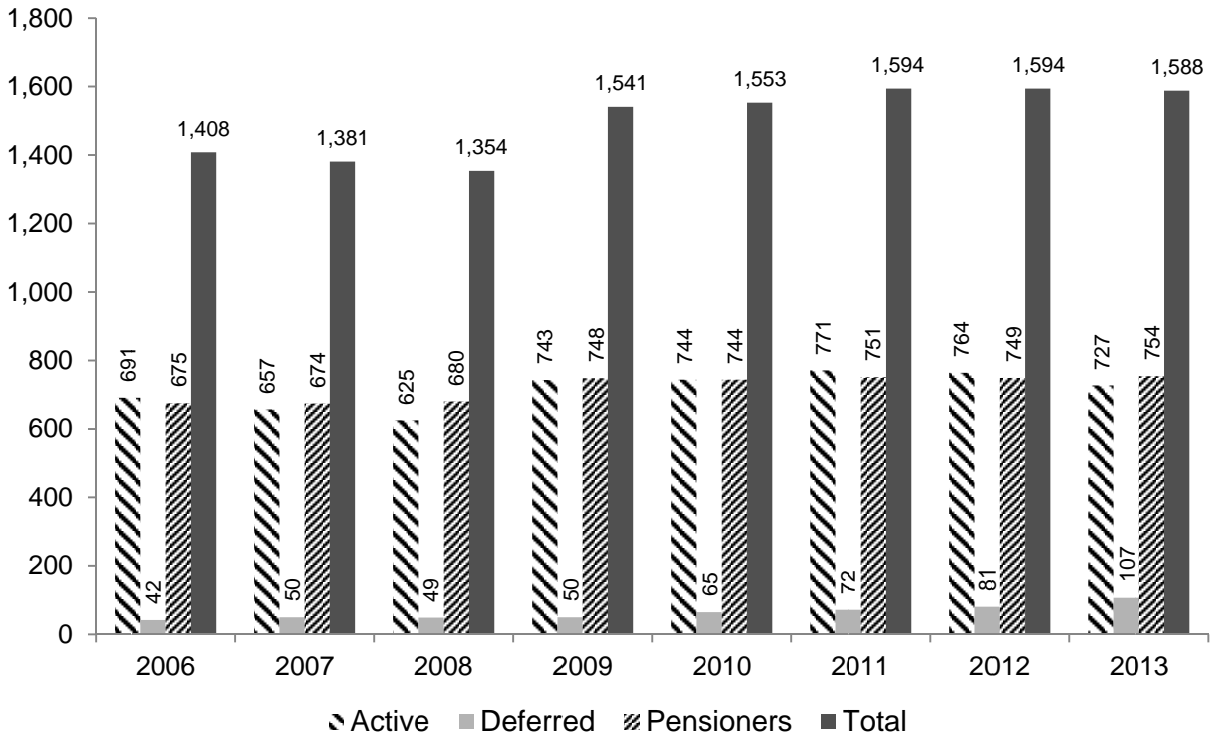
Fund assets (£billion)



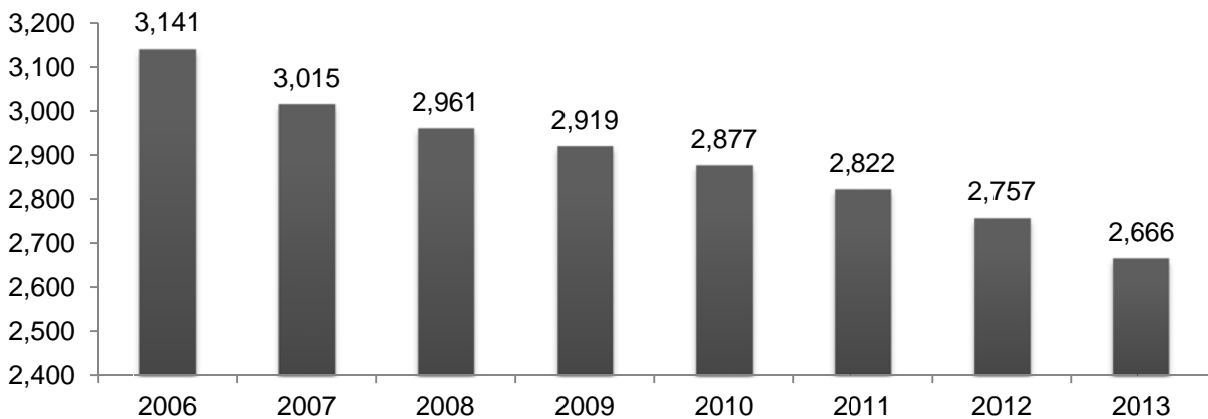
Funding level



Fire Fighters' Scheme - membership



Teachers Compensatory Added Years - number of pensions in payment (recharged)



Progress Against Key Objectives & Targets in 2013-2016 Plan

Key Objective	Tasks	Progress
1. To undertake the Fund's triennial valuation as at 31/03/2013 and the review the Funding Strategy Statement in light of scheme changes and actuarial findings	<ul style="list-style-type: none"> • Commission the Valuation process and review of actuarial assumptions • Financial risk assessment of employing bodies • Data Cleanse project • Agreement of employer contributions 	<p>GREEN</p> <p>On track</p> <p>Complete 31/7/13</p> <p>On track to complete 31/3/14</p>
2. 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 • Revise any investment policies (rebalancing, cash management) to support new strategy • Revise Committee and Panel Terms of Reference to reflect revised governance arrangements 	<p>GREEN</p> <p>Implementation on track to be completed during 2014/15</p> <p>Completed June 2013</p> <p>Completed June 2013</p>
3. To review the Governance and training arrangements for the Committee in view of the emerging changes	<ul style="list-style-type: none"> • Review the appointments of Independent Investment Advisor • Appoint new Independent member to the Committee • Training for new members • Committee Training (in-house provision) <ul style="list-style-type: none"> • Valuation workshop to discuss funding level and assumptions for FSS (3Q13) 	<p>AMBER</p> <p>Waiting for new governance arrangements</p> <p>GREEN</p> <p>Completed June 2013</p> <p>Completed</p> <p>On-going</p> <p>Held July 2013</p>
4. 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 	<p>AMBER</p> <p>Awaiting rollout of new IT systems at corporate level</p>
5. Build on changes in 2012 to Pension Section organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose	<ul style="list-style-type: none"> • To embed the new Member Data Quality Control Function 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 	<p>GREEN</p> <p>On track to be completed during 2014/15</p>

<p>6. Seamless introduction of New LGPS Scheme 2014 adapting to new pension software and successfully communicating with employers and members on changes</p>	<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 roadshows, Scheme newsletters, DVDs and replacement Scheme literature. 	<p>AMBER still awaiting transitional regs – otherwise GREEN AS ABOVE</p> <p>GREEN On track to complete by end of June 2014</p>
<p>7. Seamless introduction of New Fire fighters new Scheme in 2015 adapting to new pension software and successfully communicating with employers and members on changes</p>	<ul style="list-style-type: none"> • Adapting to new pensions software • Working with Avon Fire Service to put in place a successful communications campaign to explain changes to fire-fighters, requiring roadshows. 	<p>2Q 14 onwards for 12 months</p>
<p>8. To strengthen the working relationship and process efficiency with employers by moving to full electronic delivery of change in member data through ESS and/or i-Connect</p>	<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 • Complete installation of i-Connect software for the 4 unitaries and support the process • Market i-Connect to other participating employers in the Fund • Implement employer staff training programme 	<p>GREEN Complete during 2014/15</p> <p>AMBER 1 UA outstanding. Due 1Q14</p> <p>AMBER Review 2014/15</p> <p>GREEN</p>
<p>9. To progress to electronic delivery to members as a cost saving measure</p>	<ul style="list-style-type: none"> • To progress to electronic delivery to active members of generic Scheme communications • Promotion of Member Self-Service to sign up members to enable this 	<p>AMBER Progress delayed till 2014/15 due to staff changes & workload AS ABOVE</p>
<p>10. To embrace partnership opportunities as they arise at both a local and regional level.</p>	<ul style="list-style-type: none"> • Pilot communications opportunities within region to support new scheme implementation 	<p>GREEN On-going</p>

Key Objectives & Targets in 2014-2017 Plan

	Key Objective	Tasks	Target Date
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" <ul style="list-style-type: none"> Consultation from Government Direction of Travel (expected by June 2014) 	1Q14 (?) September 2014
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 	3Q 2014 Possibly 1/2Q14 Commence annually in June March 2014 September 2014
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 	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 	Commence 1Q14 Commence educational process 2014 Commence 2Q14
5	Investigate options for insuring ill-health risks	<ul style="list-style-type: none"> Commission actuary report on options, costs and funding implications 	Commence September 2014
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 	Commence March 2014
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 	Commence 2Q 2014

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 	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 	14/15 onwards 14/15 onwards 4Q14 onwards
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. 	2Q14 2Q14 4Q13 onwards for 12 months
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. 	3Q14 onwards for 12 months
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 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 	2Q14 3Q14 2Q14 During 14/15 Ongoing Commence 2Q14

		<ul style="list-style-type: none"> • Roll out to all employers • Consider developing further to incorporate with monthly membership data changes 	<p>By end 2014/15</p> <p>Commence 2015</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>3Q14</p> <p>3Q14 onwards</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 	4Q14
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 	On-going
16	Review AVC arrangements	<ul style="list-style-type: none"> • Review range of investment choices for members 	2/3Q14

Budget and Cash Flow Forecast

APPENDIX 4A

Three Year Budget

	Budget for 2013/14	Forecast 2013/14	Budget 2014/15 per 2013/14 3 year budget	Budget 2014/15	Budget 2015/16	Budget 2016/17
	£	£	£	£	£	£
Investment Expenses	71,500	75,300	71,500	69,400	70,800	70,100
Administration Costs	76,900	75,500	83,000	78,500	77,000	78,600
Communication Costs	90,100	63,000	72,900	90,100	72,200	73,600
Payroll Communication Costs	81,700	82,500	84,200	81,100	82,700	84,300
Information Systems	246,200	235,300	252,300	255,800	242,000	246,400
Salaries	1,476,500	1,312,300	1,488,200	1,525,300	1,555,900	1,587,000
Central Allocated Costs	425,900	403,200	415,800	425,900	432,000	438,400
Recharges Admin	- 134,300 -	- 174,000 -	- 137,700 -	- 142,500 -	- 145,400 -	- 148,300 -
Total Administration	2,334,500	2,073,100	2,330,200	2,383,600	2,387,200	2,430,100
	-	-	-	-	-	-
Governance Costs	327,800	284,900	244,900	252,600	186,000	179,500
- Members' Allowances	39,100	40,500	40,300	39,100	39,900	40,700
- Independent Members' Costs	28,000	48,800	18,500	18,900	19,300	19,600
Compliance Costs	471,100	482,500	361,600	331,100	337,700	469,500
Compliance Costs recharged	- 191,000 -	- 300,000 -	- 196,700 -	- 191,000 -	- 194,800 -	- 198,700 -
Governance & Compliance	675,000	556,700	468,600	450,700	388,100	510,600
	-	-	-	-	-	-
Global Custodian Fees	129,400	100,000	137,200	82,500	84,100	85,800
Investment Manager Fees	12,525,500	10,053,000	13,250,500	15,978,700	17,447,600	18,494,400
Investment Fees	12,654,900	10,153,000	13,387,700	16,061,200	17,531,700	18,580,200
	-	-	-	-	-	-
NET TOTAL COSTS	15,664,400	12,782,800	16,186,500	18,895,500	20,307,000	21,520,900

Cash Flow Forecast

	<u>Out-turn Forecast</u>				
	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Cash Balance 1st April	19,689	19,026	13,745	26,768	23,972
<u>Outflows</u>					
Benefits	(106,197)	(112,457)	(117,447)	(122,932)	(128,683)
Pensions					
Lump sums	(29,247)	(35,041)	(33,226)	(33,890)	(34,568)
Administration costs ⁽¹⁾	(6,126)	(7,071)	(5,537)	(5,765)	(6,006)
Total Outflows	(141,570)	(154,569)	(156,210)	(162,587)	(169,257)
<u>Inflows</u>					
Deficit recovery (allowing for a lump sum in 2014/15)	31,701	32,460	48,141	33,361	37,790
Future service Employers	67,860	71,259	73,618	79,489	85,203
Future service Employees	35,297	35,767	37,318	37,691	38,068
Total Contributions	134,858	139,485	159,077	150,541	161,061
Net Cash Flow (excluding Investment Income)	(6,712)	(15,084)	2,867	(12,047)	(8,196)
Investment income received as cash	6,049	9,803	10,156	9,250	9,250
Net Cash In-Flow (Out-Flow)	(663)	(5,281)	13,023	(2,796)	1,054
Cash Balance at 31st March	19,026	13,745	26,768	23,972	25,027

Notes : Transfers in and out are assumed to net to zero

This forecast includes the anticipated effects of the 2013 Triennial Valuation

⁽¹⁾ Administration costs include administration expenses plus Investment Management Fees that are invoiced

SERVICE PLAN BUDGET 2014 – 2017

A three year budget for 2014 to 2017 is included as Appendix 4A. The proposed budget is a continuation of the 2013/14 budget with the developments that were incorporated in to the budget in that year, with the removal of one off items and the addition of 2014/15 one off items. The cost of inflation has been absorbed wherever possible.

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 governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

The table below shows the change in the budget for the Fund between 2013/14 and 2014/15, excluding Investment Management and Custody costs that are dependent upon investment performance and the volume of transactions.

Change in Administration, Governance and Compliance Budget	£
Budget for Administration, Governance and Compliance 2013/14	3,009,500
Additional Recurring Costs	
Additional resources for Salaries, mainly the increase in pensions contributions, but also an assumed pay award of 1% and increments where applicable.	48,800
Removal of One Off costs that were required in 2013/14	
Triennial Valuation	-120,000
Investment consultants	-70,000
External legal fees, including actuarial legal fees (reduced)	-20,000
Appointment of Independent Trustees	-10,000
Additional One Off costs required in 2014/15	
AVC Monitoring	3,000
Disaster recovery programme (increase on previous estimated amount)	2,400
Increased cost in developing information system for new scheme	3,100
Investment staff training	1,500
Increased recharges and other minor savings	-14,000
Proposed Administration, Governance and Compliance Budget	2,834,300

The budget has been held at the 2013/14 level with additional savings made where possible and additional expenditure added where necessary to maintain 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 an overall reduction in the proposed Administration, Governance and Compliance Budget of £175,000. A detailed analysis of the necessary growth, savings and one off items is given below.

Scheme Administration

1. Salaries

There is an increase in salary costs of £48,800. Of this, £26,400 is as a result of increased pension contributions, A further £12,800 is included to cover the cost of an assumed 1% pay award and increments where applicable. There is an additional £13,300 to fund the restoration of a full time post to five day working after it had been temporarily reduced to four days. These costs are partially offset by a saving of £3,600 on National Insurance contributions.

The 2013/14 assumed 1% increase in pay rates is followed in subsequent years by an assumed 2% increase. This will be reviewed in the preparation of the next three year budget.

2. Investment Expenses, Administration and Payroll Communications

Investment Expenses, Administration and Payroll Communications budgets have all been held at the 2013/14 level, with inflation being absorbed. Minor adjustments within these areas have resulted in a small overall saving.

3. Communications

The Communications budget for 2013/14 included a one off item of £19,300 for the 2014 Change of Scheme booklet. As a result of the delays in the government announcing the details of the scheme this budget has remained unspent. It is now planned to produce this booklet in 2014/15. The budget is therefore being carried forward as a one off item.

4. Information Systems

Information Systems costs have increased by £10,000 on an overall 2013/14 budget of £246,000. This increase includes a £3,000 rise in the estimated cost of developments required as a result of the change in the scheme and a £2,400 increase in the previously estimated cost of the Disaster Recovery Programme.

5. Central Allocated Costs

Central Allocated Costs have been held at the 2013/14 budget level.

6. Administration Recharges and Compliance Costs Recharged

The budget for income has been increased by £8,200. Of this £3,000 is a result of a forecast increase in the number of recharges of pension sharing costs. The remaining £5,200 is largely due to increases in recharges that are calculated on agreed formulae that include the rate of inflation.

Governance and Compliance

7. Governance

The 2014/15 budget for Governance Costs, including Member's allowances and Independent members' costs has been reduced by £84,000 due to a combination of factors, mainly:

- Investment Consultancy fees have reduced by £70,000 as a result of removing the one off costs of the Strategic Review and a reduction in advice for new investment mandates. These reductions were partially offset by the cost of the Hedge Fund review, Liability Driven Investment advice and other ad hoc reviews.

- Removal of the one off £10,000 cost of recruiting a new independent trustee.

8. Compliance costs

The 2014/15 budget for Compliance costs has been reduced by £140,000 due to:-

- The removal of the one off actuarial costs of £120,000 for the 2013 Triennial Valuation.
- The reduction of the budget for external legal costs by £15,000 and for external actuarial legal costs by £5,000. It had been anticipated that there may be greater legal costs incurred in relation to new Investment Management agreements following the Strategic Review.

9. Compliance costs recharged

The budget for compliance costs recharged has been held at the 2013/14 level. A high proportion of these recharged costs are for actuarial work relating to the conversion of schools to Academies. It is recognised that the rate of conversion may slow down. If this is the case the reduction in income from recharges will largely be offset by the reduction in actuarial fees incurred.

The Fund imposes recharges on employers for additional work incurred as a result of their late or inappropriate submission of data/information. However, it is intended that these recharges should stimulate a change in behaviour rather than produce additional income.

Investment Fees

10. Investments fees

The investment management fees budget assumes asset values will increase by 6% during 2014/15.

In addition to the assumed 6% growth during 2014/15, the 2014/15 fees have been re-set to reflect the actual asset values at 31/12/13 (the estimated asset value for 2014/15 in the previous year budget was 15% lower than the actual value at 31/12/13). The budget includes the net increase in fees for the new mandates appointed in 2013/14 and for the infrastructure mandate. The fee rates for the Diversified Growth Funds and emerging market equity manager were close to the estimate used in setting the budget last year. However, these investments were funded by selling down index funds that have a lower fee rate whereas the budget assumed a higher offset in fees. The underlying increase in fees due to the changes in the investment structure is c. £900,000 or 0.03% of asset value.