

Bath & North East Somerset Council

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| MEETING: | AVON PENSION FUND COMMITTEE |
| MEETING DATE: | 12 December 2014 |
| TITLE: | PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2014; (2) PERFORMANCE INDICATORS 3 MONTHS TO 30 September 2014; (3) SUMMARY PERFORMANCE REPORT TO 30 September 2014) (4) CIPFA – BENCHMARKING - PENSIONS ADMINISTRATION COMPARITOR REPORTS |
| WARD: | ALL |

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List of attachments to this report:

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| Appendix 1 | Summary Financial Accounts: Seven months to 31 October 2014 |
| Appendix 1A | Summary Budget Variances: Seven months to 31 October 2014 |
| Appendix 2 | Cash flow forecast to 31 March 2015 |
| Appendix 3A | Balanced Scorecard : 3 months to 30 September 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 30 September 2014 (<i>Retirements from ACTIVE and DEFFERED status</i>) |
| Appendix 5 | Active membership statistics over 42 months to 30 September 2014 |
| Appendix 6 | Joiners & Leavers statistics over 14 months to 30 September 2014 |
| Appendix 7 | Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 30 September 2014 (including late payers). Annex 1 current quarter, Annex 2 timeline |
| Appendix 8 | CIPFA 2014 Comparators report |
| Appendix 8A | CIPFA 5 Year Comparator report |
| Appendix 9 | 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 October 2014. 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 September 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 30 September 2014 as well as the Risk Register and 2014 CIPFA Benchmarking Comparators report and five year comparators report for noting.

2 RECOMMENDATION

That the Committee notes:

2.1 Administration and management expenditure for 7 months to 31 October 2014

- 2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 30 September 2014
- 2.3 Summary Performance Report for period from 1 April 2011 to 30 September 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 7 months to 31 October 2014 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 £61,000. This is partly due to savings on salaries resulting from the temporary partial secondment of the payroll manager to the Council's payroll section to provide support while they undertake a major project. Those parts of the Payroll Manager's role 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. In that part of the budget that is not directly controlled, expenditure is forecast to be under budget by £385,000 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 October of £60.5m above the forecast. The net in-flow above forecast for the full year to 31 March 2015 falls to £40.9m 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 more than 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.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 30 September 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 7585 new cases were received and 7224 were cleared representing 95.24% clearance of cases during the period and an increase in overall outstanding cases at period end. As a snapshot, at 30th September 2014 there were 3150 cases outstanding of which 32% represents actual workable cases and 68% represents cases that are part complete, pending a third party response.

7.2 Transfer Outs – the number of cases processed within agreed timescales has fallen since the previous quarter. This is due to the Fund reviewing its internal procedure for issuing transfer out quotes as a result of recent HMRC initiative on preventing Pensions Liberation (Scams). In cases where the transfer request is from an IFA or an unrecognised alternative provider the Fund is seeking confirmation of scheme registration from HMRC prior to issuing an initial transfer quotation.

7.3 Other areas shown in selected **Graphs** the Fund:

7.4 Complaints: There were **no** complaints received in the period.

7.5 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30 September 2014 - Retirements

Appendix 4 reports on the customer satisfaction based on 134 questionnaires returned from members retiring from both active and deferred status (out of a total of 295 questionnaires issued in respect of the reporting period). 98% reported that the information provided by the Fund was both clear and concise with 94% rating the service as good or excellent.

8 LEVEL OF OPT OUTS FROM THE SCHEME

8.1 The Committee has asked that the level of opt outs from the Scheme be monitored in view of recent events affecting public pensions and the trend reported back to each Committee meeting.

8.2 Reports indicate that 0.15% of active membership with more than 3 months service opted out over the period to 30th September 2014.

8.3 The additional introduction of an alternative 50/50 scheme will also give members an alternative 'cheaper' option for '*when times are tough*'. This bodes well for retention of members in the Scheme.

8.4 The position on opt outs will continue to be monitored and reported to the Committee at each meeting. A report will also be developed to report to the committee 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.

9 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS (monitoring Opt Out trends) – EFFECT ON MEMBERSHIP OF THE START OF AUTO ENROLMENT

- 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**. Figures of the current active membership for a cumulative period from 1 August 2011 to 30 September 2014 are shown in a graph format in **Appendix 5**.
- 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 now a requirement of the Pensions Administration Strategy. The Report for the period to 30th September 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 largest employers *(viz. 4 unitaries) reporting performance against retirements and early leavers 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 5 year period.
- Report on any late pension contributions by employers to the Fund due for the 4 months to 31st October 2014.

11 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

- 11.1 The Fund is continuing to progress towards electronic receipt of all member data change information:
- 11.2 **Employer Self Service: Update**
- As at 30th September 2014 60% of employers had received full training on ESS data submission – representing 81% of total scheme membership.
- 11.3 ***i-Connect***
- 11.4 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 has signed agreements to use i-Connect

11.5 Both **Bristol City Council** and **North Somerset Council** send monthly data extracts.

11.6 **South Gloucestershire Council**: has requested deferment on going live on i-Connect pending extract specification requirements. The Payroll software provider is currently in the process of signing a legal agreement to enable work on providing relevant data extract to be undertaken.

11.7 **Bath & North East Somerset Council** is in the process of revising its HR & Payroll service. Due to staff expertise required to support this project an agreement has been reached to discontinue i-Connect for the period 1st April 2014 to 31st March 2015. Key data will continue to be supplied via an alternative EDI process during the interim period.

11.8 CIPFA BENCHMARKING CLUB REPORT 2014

Each year, the Avon Pension Fund participates in the CIPFA Benchmarking Club exercise for Pension Administration. Following completion of an in-depth questionnaire on its administration processes, it receives a report detailing performance and costs comparisons against the other members of the Benchmarking Club.

The Fund then selects *Comparators* who are similar in structure and size to obtain a reasonable comparison. An extract of the report from the Comparators Report 2014 is included in **Appendix 8**.

11.9 The Funds cost per member remains competitive at £18.27 against the average fund (£20.75) and also the smaller comparator group (£20.37). In 2013/14 the Funds costs increased by 5.09% reflecting investment in Data Quality compliance. The Fund continues to have higher costs than average in areas where resources and investment have been prioritised. Particular factors to note are:

- (i) The Fund still spends more on than the comparator group on IT. However, the gap is closing as other funds continue to step up investment in this area.
- (ii) The Fund continues to reduce its communication costs per member as it makes greater use of electronic delivery of communication material – the costs remain higher than the comparator funds.
- (iii) Staff costs remain competitive demonstrating that the Fund benefits from economies of scale as membership growth has exceed capacity growth – the benefits administration team handle c.15 % more scheme members per staff member than the comparator group average.

11.1.1 **Appendix 8A** reports Fund performance against the comparator group over the previous five year period.

- (i) The Funds employer portfolio has continued to grow in excess of the comparator funds (*fig3*) and is managing the fragmentation of the employer base effectively within budget.
- (ii) The report demonstrates a year on year increase in APF staff workload over the reporting period (*fig4*) reflecting both the growth in the employer portfolio over the same period and also an increase in transactional processing.
- (iii) Number of members per FTE staff (*fig5*) have remained relatively constant during the period and remain above the group average.
- (iv) The Fund has mixed performance in dealing with tasks (*fig6-9*) which reflects (a) the greater fragmentation of the employer base (b) lack of awareness from employers and (c) the use of internal measurement standards that have tighter deadlines than industry standards. The Fund is in the process of

reviewing its Administration model with a view to direct employer engagement. The Fund currently has agreed a short term administration secondment to Bristol City Council to aid employer processes and review internal procedures.

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 There are no new risks added to the register this quarter. The register is being updated to reflect The Pension Regulator's compliance requirements and this will be reported to Committee in March. The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 9**.

12.5 The Risk Register is updated regularly by officers and reported to Committee annually or when there is a change in significant risks.

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.

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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 | |