

THE AVON PENSION FUND

SERVICE PLAN

2016 - 2019

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AVON PENSION FUND SERVICE PLAN 2016-2019

1. BACKGROUND

In the 2015 Service plan, the Pensions Committee agreed a clear direction of travel for the three key Fund Strategies namely Administration, Funding and Investment. This recognised that the Fund would come under greater scrutiny from the Pensions Regulator and the then soon to be created Pensions Board. The plan recognised the difficult economic outlook and continued austerity that would create difficulties for employers with a valuation fast approaching and agreed to continue with the development of the investment strategy to better align liabilities and cash flows whilst recognising that issue of government prescription over investment strategy had not gone away!

Since the election in May 2015 there have been two announcements that will have a significant operational impact on the Fund going forward;

- The requirement that funds pool their assets to create super pools of £25b
- The requirement that all schools will become academies by the end of the current parliament

Pooled Funds

Whilst the Committee have agreed to work with the Southwest Funds to produce a pooling proposal for submission to government by 16th July, the work involved in unwinding assets particularly liquid funds will take many years and it is unlikely that savings will emerge until this work is near completion. Indeed for a number of years the Fund will have to operate on a two tier basis holding pooled and non-pooled assets. Provision has already been agreed by Committee to support this work to the July submission, but undoubtedly there will be more upfront costs as the implementation plan for pooling unfolds.

New governance structures will need to be put in place for the Pools and the impacts on the Investment Panel and Committee's own governance structure and terms will have to be considered appropriately.

Academies

Whilst there has been a steady flow of schools converting to academy status over the past few years, there are already signs of increasing numbers preparing to convert since the government announced its intention that all schools should become academies. It is anticipated that this could happen as early as the end of 2018. Clearly this creates a lot of work in respect of Fund admissions for fund officers and actuaries alike, but this is an evolving scenario with ongoing school mergers into Multi Academy Trusts and outsourcing of support functions presenting further complications. It is likely that the number of employers within the fund will rise to around 450 over the next two years and the administration therefore needs to be

resourced effectively to deal with not only the flows of member information but the ongoing training and compliance matters that continually arise.

Austerity

Public sector organisations have been planning for the impact of ongoing austerity to different degrees, but the impacts on resources are not necessarily fully developed, which is compounded by the direction of travel for schools. What is clear is that it is impacting the Fund in three key areas;

- The need to support employers and their members through the process of downsizing which is set to continue for the next few years
- The need to support ongoing outsourcing and alternative service delivery arrangements through management of the admissions process
- The need to protect the Fund and minimise future financial risk.

Given this direction of travel, the need to ensure the Pensions Regulators compliance requirements are met and to properly manage fund risk, greater attention must be paid to Employer Services not at a cost to member services but in addition to it. During the last valuation the Fund Actuary recognised the increasing costs arising from compliance and fragmentation of the employer base but did not raise the administration contribution rate which has been static for almost a decade. This will have to be seriously considered in 2016 in order to maintain an effective administration and fully compliant service.

It is therefore proposed to restructure the Administration function to create specific member and employer focused services and strengthen the Actuarial service within the Investment Function to enable it to more effectively manage employer risk. The Administration Strategy will also be reviewed to examine further opportunities for direct charging of services.

Staff Retention

Of increasing concern is the Funds inability to retain staff with 15 staff leaving the organisation over the past 18 months. This is the result largely of higher paying competitors and is unlikely to change with continued low levels of public sector pay awards. In order to combat this trend, it is proposed to build upon the successful apprentice scheme and to examine opportunities for role redesign – which is necessary anyway - as part of the structural review.

Valuation and Funding Strategy

Ongoing austerity and low bond yields will present significant challenges in setting the Funding strategy this year and it is unlikely that the Government will use the cost sharing mechanism in 2016 to adjust the balance of liabilities. Maintaining a robust

funding position is key to the Funds' deficit management but equally important will be the need to review the asset/liability position once the Actuary has completed the valuation. This will ensure that the Fund is able to manage the ongoing call on cash as the Fund continues to mature and examine opportunities to enhance the investment strategy. Similarly further examination of opportunities to minimise liability risk will be explored.

Compliance

The Fund will continue to support the work of the Pensions Board and it is anticipated that both the Pensions Regulator and Scheme Advisory Board will increase their scrutiny of LGPS activities focusing on specific areas, with any resourcing or service impacts reported as they arise.

2. KEY OBJECTIVES 2016-19

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 been resource and governance intensive; the emergence of Pooled funds will impact on this position but not immediately and is likely to incur one off upfront costs initially. The Funding Strategy has been developed to ensure there is flexibility to manage affordability but will be severely challenged going forward in the continued period of austerity; the Administration Strategy has set a direction of travel which is perfectly aligned to the developing operating environment and has to some extent reflected the increasing governance requirements, however it is the growing demands of employers which now have to be addressed. **Appendix 2** sets out progress made against the key objectives in the 2015-18 service plan.

The **Key Objectives** for the Fund during the 2016-19 Service Plan period will be as follows:

Administration Strategy:

1. To continue to implement the agreed published 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 TPR code of practice.
2. To continue to implement planned IT Strategy designed to achieve a digital step change in service delivery and mitigate service demand growth.
3. 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. Develop revised service offer and SLA.
4. To provide ongoing "as required" support to the local LGPS and Fire Service Pension Boards.

5. To complete redesign development of website services and information for employers which is fully integrated with self-service provision.
6. To complete the rollout of Employer self-service and i-Connect to achieve 99% pension data receipt in 2016.
7. To continue GMP data reconciliation exercise as required by DWP to ensure the fund is not at risk of pension overpayment or erroneous pension liability.
8. To undertake review of pensioner member 'pots' to identify potential commutation opportunity in line with Government Budget announcement. Trivial commutations
9. To complete the move towards electronic delivery of Scheme communications to active members.
10. To continue to improve the quality of member data held to meet The Pension Regulator's minimum legal requirements as agreed within the Data Improvement Plan.
11. To complete the review support service arrangements to ensure the fund receives value for money services
12. 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:

13. To complete covenant assessment analysis for incorporating into the funding strategy and funding plans.
14. To set the Funding Strategy Statement that protects the solvency of the Fund but is affordable for employers.
15. To investigate options for insuring ill-health retirement costs for smaller employers or employer clusters within the Fund.
16. To continue to mitigate the risks to small employers of funding variations.

Investment Strategy:

17. To develop and agree the pooling of assets proposal for DCLG and implementation of the transition plan.
18. Review strategic allocation to ensure
 - it meets long term objectives post 2016 valuation
 - the pooling arrangements can deliver the strategy over time.
19. To implement any changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.
20. To examine the risks and benefits of Liability Driven Investment as a mechanism for reducing future liabilities.
21. Review the Responsible Investing Policy to ensure it addresses emerging risks and opportunities.
22. Agree the new Investment Strategy Statement in line with new regulations.

Governance:

23. Review governance arrangements following the pooling of assets and creation of Pensions Board.
24. To ensure the relationship between the Committee and the Pensions Board operates effectively and in the best interests of the Fund.

25. 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.
26. Ensure effective engagement with Committee on the proposal to pool assets and its implementation.
27. Appoint independent member to Committee when current term expires in May 2017.

3. RESOURCE IMPLICATIONS

It will be apparent from the preceding paragraphs that the Fund continues to undergo significant changes to its investment structure, risk management and regulatory compliance operations, a situation which is further fuelled by the growing demands of employers who are still coming to terms with their own pension's responsibilities.

Addressing these issues requires not only increasing resources but some different skills requirements to ensure that the combined operations of employers and the Fund result in compliant and relevant services for Fund members. The Fund will continue to invest in the training and development of its staff and increase its level of professional training undertaken.

However given the level of demand and staff turnover, the Fund now needs to not only increase resources in key areas but needs to prepare for future demand and continuing turnover. In the circumstances structural changes will be undertaken to reorganise the administration into member and Employer focused teams strengthening the later by 3.5 FTE's and in addition extend the pool of apprentices/trainees from 2 to 4 which will be essential to sustain operations. On the investments team there is an increase in resources to deal with the growing actuarial workload relating to scheme admissions and risk management and the proposal is to increase this by 1FTE.. To some extent the building blocks for some of these changes were put in place last year, but since May 2015 the dynamic has completely changed. It is also intended to review some of the higher risk support functions to examine alternative methods of delivery and where possible work in conjunction with other Funds to share and mitigate risk. The full financial impact of these changes will not be apparent until 2017/18.

In respect of investments, the development of Pooled Investment Funds will have impacts on investment operations but given that the focus will be on establishment and then transition, the full implications are unlikely to materialise for some time. That said there is clearly an initial upfront cost to establishing the pool and its operating arrangements and changes over and above what the Committee has already agreed will be notified as they materialise.

4. BUDGET & CASHFLOW FORECAST 2016 – 19

Budget:

The current service plan includes the reinvestment of savings in the IT Strategy to 2017/18 and further savings have been achieved in areas of support services and accommodation, the latter as a result of increasing flexible working arrangements. 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. Wherever possible the effect of inflation has been absorbed.

Estimated costs of increased staffing requirements to meet current and future demands are £293,000 in 2016/17. This includes one off additional funding that has been agreed to support Project Brunel but has been reduced to reflect the fact that it is unlikely that the recruitment will all be achieved until 2017/18.

The budget level (excluding investment costs) proposed for 2016/17 is £3,633,000 including current expenditure levels, one off costs, new savings and growth.

Within the directly controlled budget for Administration there is a proposed increase in net expenditure of £245,000. This increase includes the resources approved during 2015/16 for the 2016/17 costs of pooling and actuarial support. A further £158,000 is being invested in the IT Strategy funded from the ongoing savings identified in the 2015/16 budget.

The Investments budget reflects savings that have been achieved following changes in Investment mandates that have led to lower fee rates. These are partially offset by the anticipated growth in asset values and the consequent increase in Investment management fees. Actual expenditure will clearly depend on the level of this growth. The higher investments budgets in 2017/18 and 2018/19 result from the cost of performance fees relating to earlier years that will become payable.

The Pension Fund is required to meet the costs of the Pensions Board that became operational in July 2015. The estimated full year costs for 2016/17 to 2018/19 have been added to the overall cost to the Fund for the three year budget. .

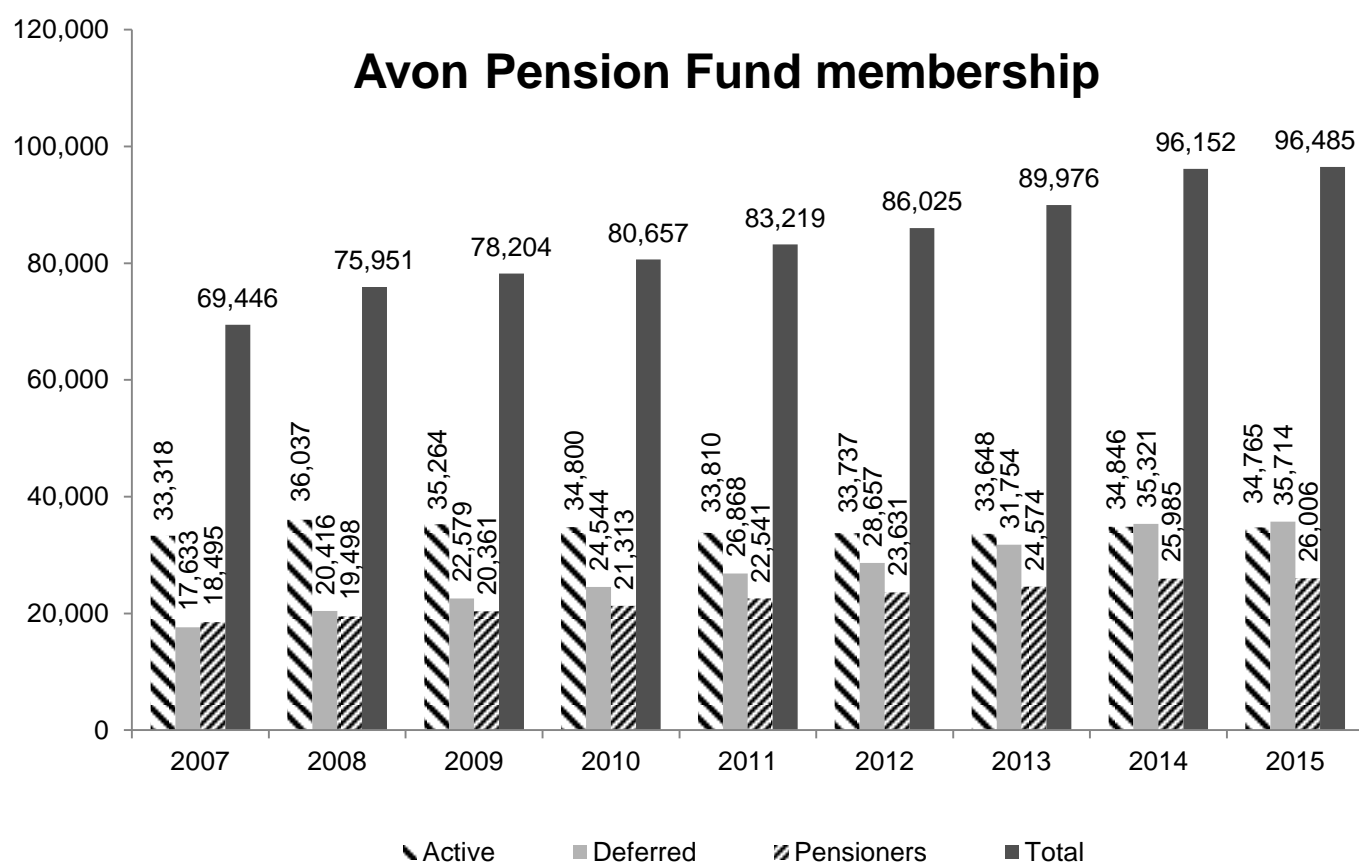
Cash flow:

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. However the consequent absence of the deficit payments that will continue throughout 2016/17 has exacerbated the negative annual cash flows. The

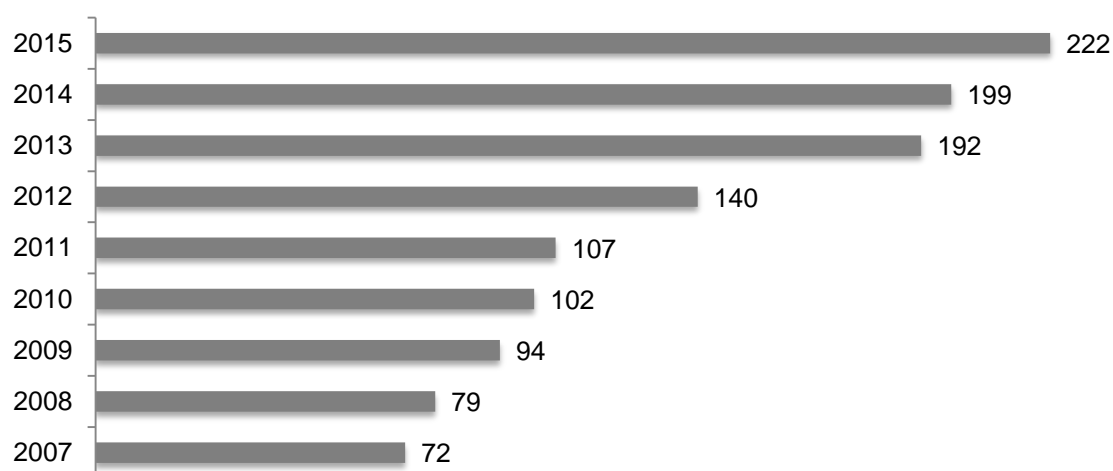
negative cash flows will be managed by using income from the investment portfolio and divestments (of the lump sums already invested) if required.

Full details of the budget between 2016-17 and 2018-19 together with a cash flow forecast for the payment of benefits and the receipt of contributions are given in **Appendix 4A**. A commentary on the budget changes between 2015 -16 and 2016-17 is given in **Appendix 4B**.

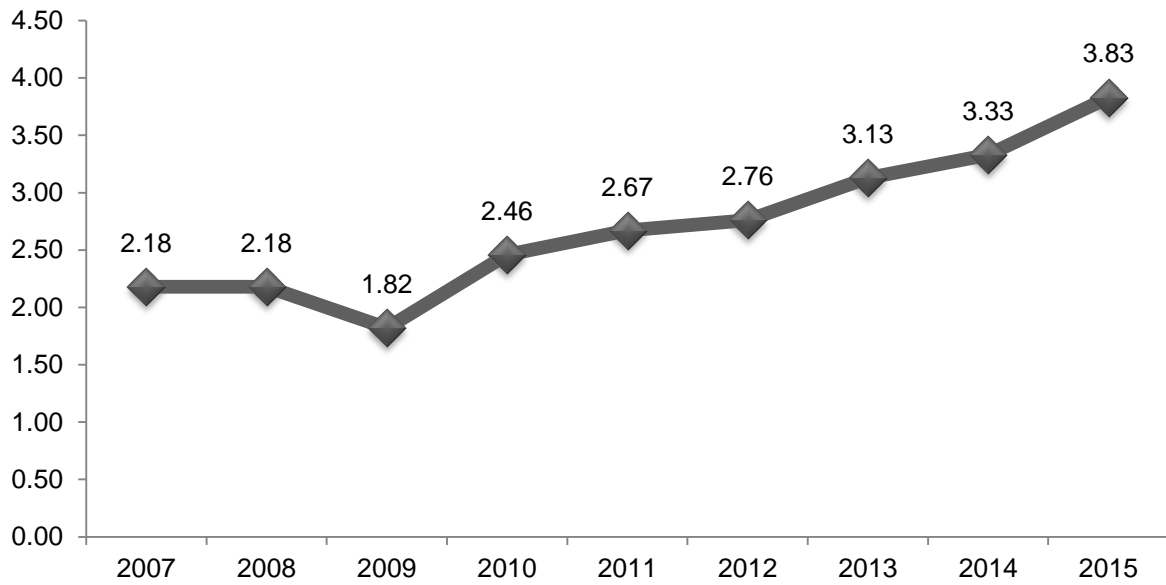
Appendix 1 – Scope of Avon Pension Fund (at 31 March 2015)



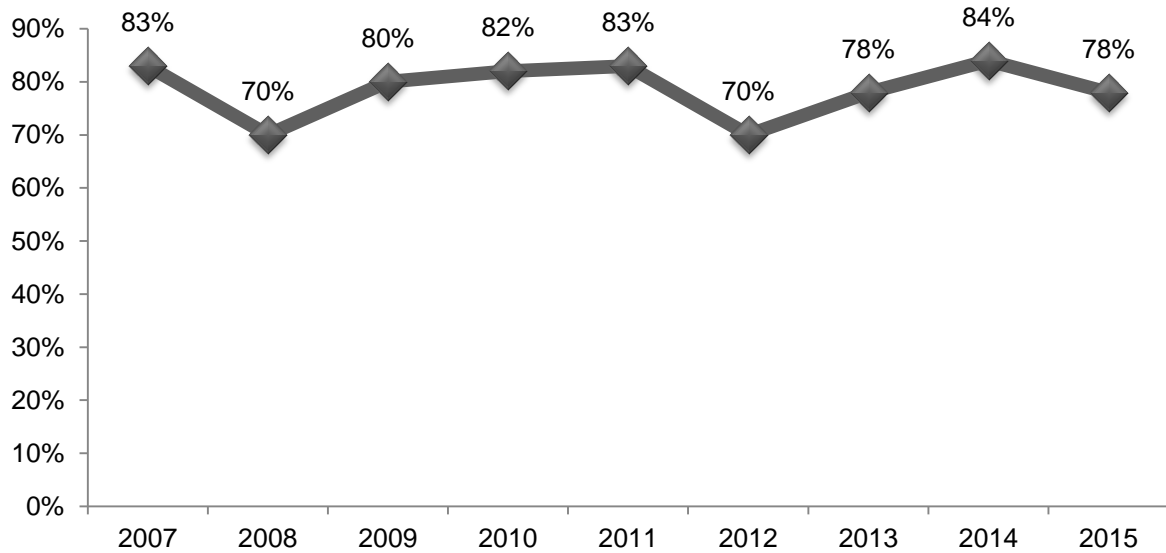
Participating employers



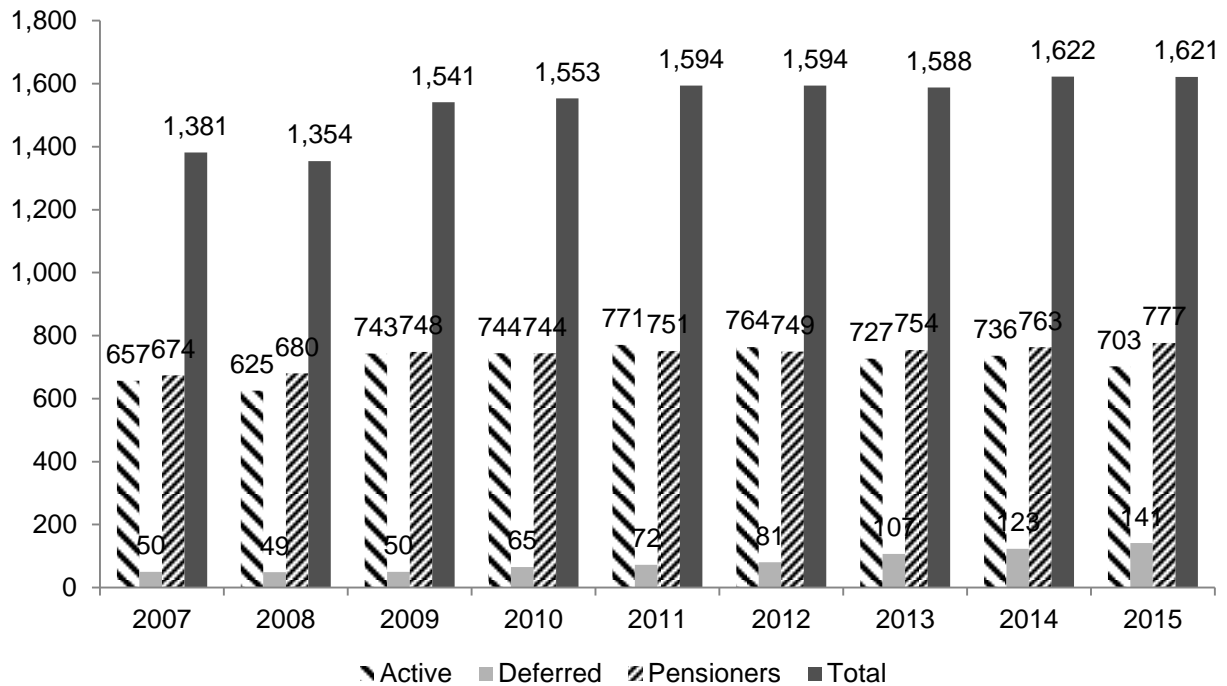
Fund assets (£billion)



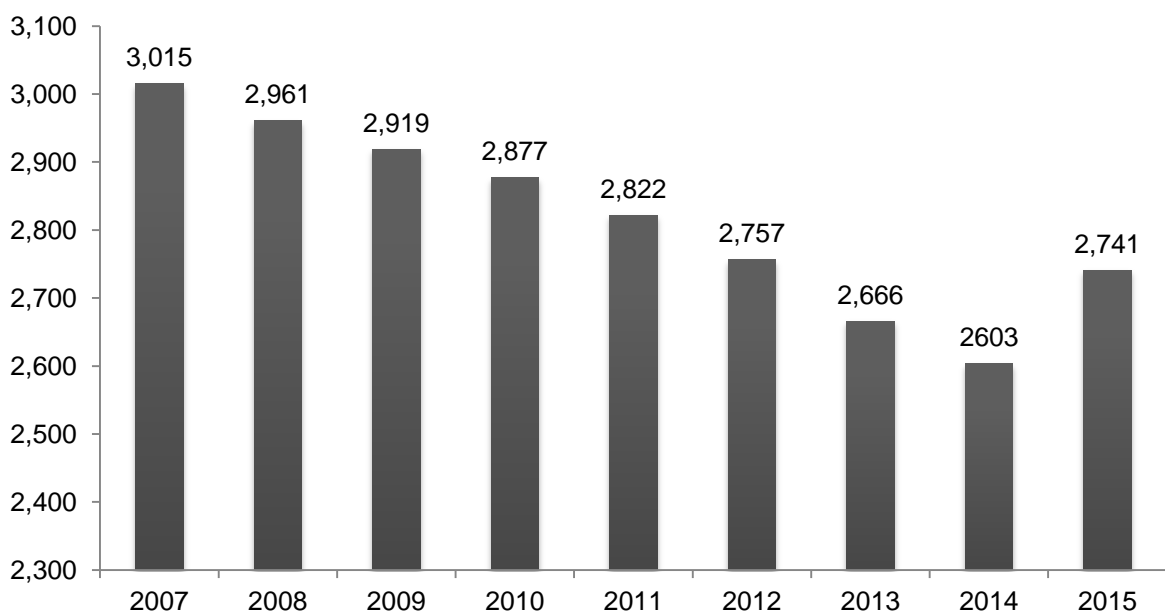
Funding level



Fire Fighters' Scheme - membership



Teachers Compensatory Added Years - number of pensions in payment



Progress against Key Objectives & Targets in 2015-2018 Plan

	Key Objective	Tasks	Progress
Administration Strategy			
1	Implement IT Strategy to increase efficiency of ...	Workstreams: <ol style="list-style-type: none"> 1. Establish necessary IT support structure 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 employer & member website and member services 	GREEN Completed Ongoing Ongoing GREEN On Track GREEN (member website completed February). Member services on track & in development
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 	Amber Commence March July 2016 July 2016
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 	GREEN On Track Completion August 2016
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 	GREEN Commenced Due June 2016
6	GMP data reconciliation project	<ul style="list-style-type: none"> • Data match exercise with DWP to mitigate risk of pension overpayment/erroneous pension liability 	GREEN Ongoing 2015/16 up to Dec 2018
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. 	AMBER Review on Hold Re-visit post 2016 Valuation exercise

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 	GREEN Framework in place for 2016 assessment
9	Investigate ill –health insurance options	<ul style="list-style-type: none"> Commission actuary report on options, costs and funding implications 	GREEN Initial work completed
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 	GREEN Completed
11	Review AVC arrangements	<ul style="list-style-type: none"> Review range of investment choices for members 	AMBER Review on hold
12	2016 Triennial Valuation	<ul style="list-style-type: none"> Initial outcome at Fund level Disseminate individual outcomes to employers 	GREEN On track
Investment Strategy			
13	Implement changes to the Investment strategy maintaining compliance with the Fund's Investment Principles and Policies	Potential projects <ul style="list-style-type: none"> Liability Driven Investing Use of tactical allocation ranges Review decision to hedge foreign exchange exposure 	GREEN Commenced Completed Completed
14	Retender Vote Monitoring contract	<ul style="list-style-type: none"> Re-tender contract for start 1 Feb 2016 	GREEN Will tender once National Framework established
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 	GREEN Commenced Due 1Q16 Completed Completed

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 	GREEN 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 	GREEN In progress
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 	GREEN Start October 2016

Key Objectives & Targets in 2016-2019 Plan

	Key Objective	Tasks	Target Date
Administration Strategy			
1	Delivery of IT Strategy to increase efficiency of ...	Workstreams: <ol style="list-style-type: none"> 1. Create Shared Dev'tment Agenda <ul style="list-style-type: none"> • Use the actuary's online valuation modelling tools • Develop Document Management System 2. Progress full employer electronic data delivery 3. Develop employer website and member services 	March 2017 March 2017 By end 2016 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 	Commenced July 2016 September 2016
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 	By August 2016
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 	Commenced due completion August 2016
6	GMP data reconciliation project	<ul style="list-style-type: none"> • Data match exercise with DWP to mitigate risk of pension overpayment/erroneous pension liability 	Commenced 2015/16 due completion Dec 2018
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. 	By end 2016
8	Administration Structure Change	<ul style="list-style-type: none"> • Review administration structure to support the Funds increasing employer portfolio and evolving operational arrangements and growing needs of employers within the Fund 	2016/2017
Funding Strategy			
9	Covenant assessment of employers to support 2016 valuation	<ul style="list-style-type: none"> • Analyse covenants for incorporation into Funding Strategy • Explore options with employers to mitigate covenant risks 	By September 2016

10	2016 Triennial Valuation	<ul style="list-style-type: none"> • Approve Funding Strategy Statement • Initial outcome at Fund level • Disseminate individual outcomes to employers 	September 2016 4Q16 4Q16/1Q17
11	Investigate ill –health insurance options	<ul style="list-style-type: none"> • Commission actuary report on options, costs and funding implications 	By September 2016
12	Review AVC arrangements	<ul style="list-style-type: none"> • Review range of investment choices for members 	Recommence once corporate changes at Friends Life finalised (merging with Aviva)
Investment Strategy			
13	Pooling of assets	<ul style="list-style-type: none"> • Develop and agree final proposal for DCLG • Work with pool to implement proposals 	July 2016 Commence July 2016
14	Implement investment strategy projects maintaining compliance with the Fund's Investment Principles and Policies	Agreed projects <ul style="list-style-type: none"> • Liability Driven Investing • Review Responsible Investing Policy 	ongoing by end 2016
15	Agree Investment Strategy Statement in line with new regulations	<ul style="list-style-type: none"> • Replaces Statement of Investment Principles 	By October 2016
16	Review Investment Strategy to ensure it meets long term objectives and takes pooling arrangements into consideration	<ul style="list-style-type: none"> • Review strategic allocation to ensure the pooling arrangements can deliver the strategy over longer term • Review strategy post 2016 valuation 	By March 2017
17	Retender Vote Monitoring contract	<ul style="list-style-type: none"> • Re-tender contract once National ESG framework in place 	Framework expected to be in place in 2016
Governance			
18	Review governance arrangements following the pooling of assets and creation of Pension Board	<ul style="list-style-type: none"> • Review ToR of Committee and Investment Panel • Review appointment of Independent Investment Advisor 	2016/17
19	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 ○ Funding Strategy & valuation 	Start after May 2015 1&2Q16 Through 2016
20	Pooling of assets	<ul style="list-style-type: none"> • Engage with Committee on proposal for July 2016 • Engage with committee on 	2Q16 Ongoing once

		implementation	proposal approved
21	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 	By end 2016 Ongoing
22	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 2015/16 £	Forecast 2015/16 £	Budget 2016/17 £	Budget 2017/18 £	Budget 2018/19 £
Investment Expenses	68,400	68,400	63,100	61,200	61,800
Administration Costs	68,400	73,400	83,900	82,100	83,300
Communication Costs	67,800	47,800	56,700	57,200	57,800
Payroll Communication Costs	76,600	42,400	39,000	39,500	40,000
Information Systems	268,200	302,400	271,400	276,800	282,400
Salaries	1,534,800	1,451,200	1,827,700	1,887,000	1,874,700
Central Allocated Costs	402,100	392,100	371,100	371,100	371,100
IT Strategy	147,600	147,600	158,600	87,200	0
Recharges: Administration	(221,800)	(222,200)	(214,300)	(218,600)	(222,800)
Total Administration	2,412,100	2,303,100	2,657,200	2,643,500	2,548,300
Governance Costs	295,500	295,700	418,300	293,000	291,100
- Members' Allowances	40,000	40,000	40,000	40,400	40,800
- Independent Members' Costs	19,300	19,300	45,300	25,600	25,800
Compliance Costs	428,000	423,300	681,500	489,300	437,100
Compliance Costs recharged	(250,000)	(250,000)	(250,000)	(252,500)	(255,000)
Governance & Compliance	532,800	528,300	935,100	595,800	539,800
Pensions Board	37,400	34,400	40,600	41,100	41,700
	2,982,300	2,865,800	3,632,900	3,280,400	3,129,800
Global Custodian Fees	84,100	84,200	87,500	89,300	91,000
Investment Manager Fees	18,532,300	17,179,200	17,229,100	18,611,400	18,797,500
Investment Fees	18,616,400	17,263,400	17,316,600	18,700,700	18,888,500
TOTAL COST TO FUND	21,598,700	20,129,200	20,949,500	21,981,100	22,018,300

The 2015/16 budget includes additional approvals made during 2015/16

The 2016/17 - 2018/19 Budget includes the following Savings and One Off expenditure			
	2016/17	2017/18	2018/19
One Off Expenditure			
IT Strategy	158,600	87,200	
Pooling	80,000	20,000	
Independent Member Recruitment	25,800		
Triennial valuation	250,000	50,000	
Savings			
Payroll and Communications -	47,400 -	39,000 -	32,300
Central Services -	33,000 -	30,100 -	30,100

Cash Flow Forecast		Estimated			
(Excluding Administration and Investment costs)		Out-turn 2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Benefits Outflows					
Benefits	Pensions	(128,904)	(129,664)	(135,654)	(141,920)
	Lump sums	(25,796)	(34,568)	(35,260)	(35,965)
Total Benefits Outflows		(154,700)	(164,232)	(170,913)	(177,885)
Contributions Inflows					
Deficit recovery		23,514	14,109	94,719	17,071
Future service Contributions		114,399	121,262	128,538	136,250
Total Contributions		137,912	135,371	223,258	153,322
Net Cash Flow (excluding Administration & Investment costs)		(16,787)	(28,861)	52,344	(24,563)
Investment income received as cash		14,954	14,954	14,954	14,954
Net Pension Transfers In / Out		(4,818)	0	0	0
Cost of administering the Fund		(3,545)	(3,545)	(3,545)	(3,545)
Net Cash Flow (Out-Flow)		(10,197)	(17,452)	63,753	(13,155)

Note : Transfers in and out forecast assumed to net to zero

SERVICE PLAN 2016 – 2019: BUDGET COMMENTARY

A three year budget for 2016 to 2019 is in Appendix 4A. It shows for comparison the budget for 2015/16 including approvals made during the year and the forecast out-turn for 2015/16. Major one off expenditure and new ongoing savings are also shown.

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.

Administration Budget

The increased expenditure budgeted for 2016/17 reflects the Funds response to the increasing pressure of dealing with the continued growth in the number of employers, the anticipated cost of the triennial valuation and the costs involved in the pooling of investments (Project Brunel). Savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Wherever possible the effect of inflation has been absorbed. Ongoing savings made in 2015/16 are to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years.

Scheme Administration**1. Salaries**

The 2016/17 increase in salary costs reflects the need for additional resources to maintain the standards of data quality and to manage the continued increase in the number of employers. The 2016/17 cost is partially reduced to reflect the likely timing of recruitments. The subsequent years show the full year costs, but these will coincide with the completion of the IT Strategy and the consequent reduction in expenditure in that area. The increased costs of salaries also allows for the change in the system of paying employer's National Insurance, increments and the expected pay award.

2. Investment Expenses and Administration

The reduction in the Investment Expenses budget is due to the redefinition of governance related subscriptions as Consultants fees. The increase in the Administration Costs budget is due to the increase in the training budget. This will be used to provide the necessary training relating to the increased resources required to maintain the standards of data quality and to manage the continued increase in the number of employers.

3. Communications

The increased use of electronic means of delivery and new arrangements for the distribution of newsletters has allowed further savings to be made in Communications.

4. Information Systems and Payroll Communication Costs

The completion of the development of Information Systems relating to changes in the Fire Fighters scheme and the new LGPS 2014 scheme has allowed a reduction in the budget. All costs relating specifically to the Fire Fighters pensions are recharged to Avon Fire and Rescue (see Administration Recharges below).

5. Central Allocated Costs

Central Allocated Costs for Accommodation, IT, Financial Management etc. have been reduced by £33,000 when compared with the 2015/16 budget level. The savings are largely a result of flexible working.

6. IT Strategy

2016/17 is the second year of the three year IT Strategy funded from ongoing savings largely identified in the 2015/16 budget. Costs include the 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 reduced reflecting the end of the secondment of a Senior Projects Officer to Bristol City Council and the completion of work changes in the Fire Fighter's scheme. These have been partially offset by the proposed recharging of a dedicated post to the Fire Service.

Governance and Compliance

8. Governance

The budget has been increased by £123,000 to provide for consultants fees mainly relating to

- (i) advice for Liability Driven Investing,
- (ii) advice for the Asset Liability Review,
- (iii) the expenditure on Responsible Investing Review moving from 2015/16 to 2016/17
- (iv) Project Brunel.

The budget also includes an additional £25,000 provision for the cost of recruiting an Independent Member (term expires 2017).

9. Compliance costs and Compliance costs recharged

The budget includes an additional £250,000 to meet the actuarial costs of the triennial valuation. 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 they are and the recharges include an allowance for the time spent by the Fund in preparing data for the actuarial work.

Additional Legal fees have been included to provide the Fund with investment related advice as a result of Project Brunel.

Investment Fees

10. Investments fees

Expenditure on investment management fees is subject to the performance of the investment assets. In addition the Fund incurs performance fees which are subject to various arrangements which are usually phased over a number of years following the performance period. The budget includes savings that have been achieved following the appointment of new investment managers.

The Pensions Board

The Pension Fund is required to fund the costs of the Pensions Board. The Board became operational in July 2015. An initial budget for the operation of the Board of £37,400 was set. The budget for 2016/17 is set out below. The budget has been increased to allow for a full year of operation. This increase is partially offset by the reduced need for member training and by the reduction in communications costs following the completion of the required new developments.

Pensions Board

	2016/17
Chairman's Allowance & Member's Expenses	12,000
Training	3,000
Meetings	8,000
Officer Support	17,000
Communications	600
	40,600