

THE AVON PENSION FUND

SERVICE PLAN

2018 - 2021

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MARCH 2018

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AVON PENSION FUND SERVICE PLAN

2018-2021

1 BACKGROUND

In 2017 the Fund set out its key objectives for the period to 2019/20 and this Service Plan continues that direction of travel recognising the continued challenging environment within which the service operates. This plan therefore updates the progress on those objectives and the further emerging challenges which need to be taken account of in the new programme period

Investment Pooling

A key milestone has been achieved in 2017/18 with the formation of the Brunel Company to manage the Funds investment assets: asset holdings are in the process of transferring to the new custodian and the planning for the transition of assets to the Brunel portfolios is well underway. However this has not been achieved without cost, the extra work has been a significant drain on management resources and ultimately a number of staff have moved to the Brunel Company which should be recognised as a credit to the Fund but is nevertheless costly. The Company is in a strong position to move forward and governance is in place and working effectively through the Brunel Oversight Board and Officer Client Group.

FCA approval is expected by 31 March 2018 which will allow the transition of assets to the new portfolios to take place. This is planned to take place over the next two years and will be actively monitored by the Client Group. A review of the business case by the Client Group will take place during 2018/19.

Investment Strategy

Asset returns have been strong over the past few years and have enabled the Fund to lock in value through its Liability Risk Management Framework and Equity Hedging. These strategies should help to deliver a positive valuation outcome and will continue to be reviewed to ensure the Fund's management of its collateral is efficient and can be managed within its available liquid assets such as equities and cash. This is a highly technical area and will be the subject on ongoing monitoring by the Investment Panel. Further strategy enhancements, such as investing in long lease property assets, will be implemented as soon as practicable given the ongoing transition with Brunel whilst the actions following the Responsible Investing Review will also continue to be implemented.

Funding Strategy

Given the Funding position, the ongoing covenant assessment work will enable the Fund to have a greater granularity of employer risk and enable the Fund to consider

ways to further de-risk the employer position within the Fund. The options of developing bespoke funds for select groups reflecting their deficit, risk assessment and financial positions will be explored further and the option of moving towards a fully unitised approach will also be explored. This will be an important consideration by the Fund given the nature and diversity of employers within the Fund and will be considered on affordability and practical operational criteria.

Administration Strategy

The growth of employers within the APF continues to represent a significant challenge to the Fund despite increases in resource over the past few years. Significant numbers of schools are transferring to academy status which, together with outsourcing and continuing public sector cuts, continues to create spikes in workload. This is expected to continue until 2020 and the Fund is examining ways of dealing with this including options for developing new chargeable services and managing demand through charging. These proposals will be developed as part of the Funds Administration Strategy Review during the summer 2018.

Governance

The formation of the Brunel Company has led to a change in governance arrangements in respect of selecting and appointing investment managers. Whilst the Brunel Oversight Board is charged with the responsibility of monitoring Brunel's effectiveness, it remains the Funds responsibility to ensure the Investment Strategy is delivered. The engagement processes between Brunel, the Oversight Board and the Fund is still in its evolutionary phase but will require a further review of Committee and Panel Terms of Reference and delegations to officers to ensure the new arrangements are operationally effective.

The Pensions Board has been in existence for almost three years and is now fully engaged in its scrutiny role. The Board is examining ways to strengthen its compliance role and it would be timely to consider how the Board can best support the Committee and Officers.

2 KEY OBJECTIVES - 2018/19 to 2019/20

Funding Strategy:

1. To establish and implement the policy for ongoing covenant assessment for incorporating into the Funding Strategy and funding plans.
2. To develop Funding Strategy proposals in readiness for the 2019 valuation to protect the solvency of the Fund and ensure contributions remain affordable for employers.
3. To explore and develop options for bespoke portfolios to match the funding and liability position of specific employer risk groups

Investment Strategy:

4. To monitor the transition of assets to the new Brunel Portfolios
5. Complete the implementation of the Investment strategy changes following the Strategic Review in 2017
6. To implement any changes to the Investment Strategy Statement reflecting Fund strategy developments and changes due to Brunel operations
7. Monitor and review the effectiveness of the Liability Risk Management Framework as a mechanism for managing liability risk through the investment portfolio.
8. Implement the actions arising from the Responsible Investing Policy review to ensure the Fund addresses emerging risks and opportunities.

Administration Strategy:

9. To review the Administration Strategy to ensure the requirements of the Pensions Regulator are properly addressed.
10. To continue implementation of the planned IT Strategy designed to achieve a digital step change in service delivery and mitigate service demand growth.
11. Finalise development of website and Member Self Service solution for Fire Service members as per SLA.
12. To complete the rollout of I-Connect and Employer Self-Service to achieve 99% electronic pension data receipt in year 2018/19.
13. To complete GMP data reconciliation exercise as required by DWP to ensure the fund is not at risk of erroneous pension liability.
14. To undertake review of pensioner member 'pots' to identify potential commutation opportunity in line with Government Budget announcement on trivial commutations
15. To complete the move towards electronic delivery of Scheme communications to active members.
16. To undertake a review of the Data Improvement Plan to ensure the quality of member data continues to meet the Pension Regulators minimum legal requirements
17. To undertake clearance of outstanding processing backlog to enable 'business as usual' to deliver in line with competitive SLA targets.

Governance:

18. Review governance arrangements following the pooling of assets.
19. To ensure the Committee and the Pensions Board is fully briefed on current strategies and operations and in position to scrutinise and make decisions effectively.

A report on progress towards objectives from 2017 – 2020 is given in appendix 2

3 RESOURCE IMPLICATIONS

It was expected that the formation of Brunel Pension Partnership Ltd based in Bristol posed a risk of losing staff from the Investments Team. In anticipation, ahead of this, the Fund over recruited by 1 senior post in 2016/17 to increase the potential to retain experience and expertise. In the event 4 staff (3.5 FTE posts out of 5.5) left, leaving just 2 staff in post. A third junior post has now been filled; however, a full review of resourcing in this area will be undertaken in 2018, taking into account the impact on our operations by Brunel, with proposals being brought to Committee during the summer. This will examine the resources required to support the ongoing transition of schools to academies and covenant assessment, cashflow and collateral management, strengthening the Funds engagement around Environmental, Social & Governance matters in conjunction with Brunel and continuing to ensure sufficient resources for Investment Strategy and Funding development. It is anticipated 2 FTE posts will be required in the next 12 months; one each for the investments and actuarial teams.

In respect of administration, whilst there is pressure from The Pensions Board to increase resources, the challenges faced are the primarily employer driven, meaning that doing more of what we do now may not bring any significant benefit. Getting the right resource to do the right thing is more important and therefore options for developing new chargeable services for employers will be explored, with options presented to the Committee in the autumn. To counter the Funds ongoing staff turnover it is planned to recruit over establishment by three FTE's in order to keep pace with demand. Additionally, there are a number of detailed projects to be completed during the year including a project to drive through automated monthly data returns across the Funds employer portfolio and separately a number of individual projects to clear outstanding work backlog to enable improved business as usual performance. Finally, pending approval by the Pensions Committee, a project to improve the accuracy of member address data in order to achieve compliance with the Pension Regulators Code of Practice. As such it is anticipated that a further 3 fixed term contract FTE posts will be required over the next twelve months; two for the Employer Services team and one for the Member Services team (Appendix 5 outlines the proposed project work and resource requirements). The Fund will also undertake recruitment into the four apprentice posts previously created as part of the admin restructure in 2016/17 to support workload and build in resilience. Staff training will focus on IT skills and systems to support the move to greater digitalisation of service delivery and to more effectively manage the workload within the resources available.

4 BUDGET and CASH FLOW

Budget:

This Service Plan period includes the costs of managing investment assets through the Brunel Pensions Partnership; however savings in investment expenses and management fees will only begin to materialise once the transition of assets has been completed. The Fund is expected to realise net (of transition costs) cumulative savings by 2024-25.

The budget level (excluding investment costs) proposed for 2018/19 is £3,676,130. Wherever possible the effect of inflation has been absorbed.

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.

Within the directly controlled budget for Administration there is a proposed increase in net expenditure of £120,000. This net increase includes additional resources to meet the employer driven demands of schools achieving academy status, the increasing number of outsourcings and the cost of meeting the challenge to maintain accurate up to date data. It also includes the cost of one of projects to trace deferred members and make historic refunds. Additional posts have been included to ensure sufficient resources are available during periods of staff turnover and there are additional centrally allocated charges relating to compliance with the General Data Protection Regulation. These additional costs have largely been offset by a combination of savings elsewhere, recharging employers for services beyond the normal provision and where appropriate, application of the IT Strategy budget.

The Investments budget includes increases in Investment management fees that are a consequence of the anticipated growth in asset values. It also includes the cost of performance fees relating to earlier years that will become payable. Actual expenditure will clearly depend on the level of growth in asset values.

The Pension Fund is required to meet the costs of the Pensions Board that became operational in July 2015. The estimated full year costs of the Board for 2018/19 to 2020/21 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 2017 the Fund had large cash in-flows. However the consequent absence of these deficit payments in

the next two years results in negative annual cash flows. The negative cash flows are managed by using income from the investment portfolio and divestments as required. Divestments are delegated to Officers as part of their operational duties. Consideration is given to the actual allocation against the strategic allocation as well as the view of investment markets.

Full details of the budget between 2018-19 and 2020-21 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 for 2018-19 to 2020-21 is given in **Appendix 4B**.