

<b>Bath &amp; North East Somerset Council</b>				
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>			
MEETING DATE:	<b>25 SEPTEMBER 2020</b>	<b>AGENDA ITEM NUMBER</b>		
TITLE:	<b>PENSION FUND ADMINISTRATION</b> <b>(1) EXPENDITURE FOR YEAR TO 31 JULY 2020</b> <b>(2) CASHFLOW FORECAST</b>			
WARD:	<b>ALL</b>			
<b>AN OPEN PUBLIC ITEM</b>				
<b>List of attachments to this report:</b> <p>Appendix 1    Summary Financial Accounts: Year to 31 July 2020  Appendix 1A    Summary Budget Variances: Year to 31 July 2020  Appendix 2    Cash Flow Forecast</p>				

## **1 THE ISSUE**

- 1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2020.  
This information is set out in Appendices 1 and 1A.
- 1.2 This report also contains the Cash Flow forecast for the year to 31 March 2021.  
This information is set out in Appendix 2

## **2 RECOMMENDATION**

**That the Committee notes:**

- 2.1 The administration and management expenditure incurred for 4 months to 31 July 2020.**
- 2.2 The Cash Flow Forecast at 31 July 2020.**
- 2.3 The draft statement of Going Concern for the pension fund.**

## **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 2016 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

## **4 COMMENT ON BUDGET**

- 4.1 The summary Financial Accounts for the 4 months to 31 July 2020 are contained in **Appendix 1**.
- 4.2 The forecast for the year to 31 March 2021 is for expenditure to be £178,000 below budget.

Within the directly controlled Administration budget expenditure is forecast to be £178,000 under budget. The forecast reduction in directly controlled expenditure is related to salaries, in particular delays in filling vacant posts.

- 4.2 In that part of the budget that is not directly controlled, it is likely that there will be an overspend in compliance and investment governance costs. This overspend will be as a result of the additional advisory work required relating to the pandemic, regulatory changes and investment projects agreed since year end. An update will be provided at the December meeting once the workplan has been fully reviewed.
- 4.3 Explanations of the most significant variances are contained in Appendix 1A to this Report.

## **5 CASH FLOW FORECAST**

- 5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Net cash outflows are managed by divestments and taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2**.
- 5.2 The 2020 - 2023 Service Plan included a cash flow forecast showing a gross in-flow of c£197.5m and a gross out-flow of c£197.2m giving a net inflow in 2020/21 of just over £0.4m. The forecast gross inflow included £7m divestments and investment income.

The actual cash flow to 31 July was an outflow of c£20.2m against a budgeted outflow of c£15.8m for the same period. The difference was mainly due to a reduction in the amount of cash that can be held by the Council's treasury management team from £45m to £35m during the period. This cash has been transferred to the Fund's custodian, State Street, and will be drawn back down throughout the year. In April 2020, £84m cash relating to contribution prepayments was invested via State Street. The Fund increased the investment cash balance in 1Q20 so there was adequate liquidity to meet private market drawdowns through to end 3Q20.

The forecast outturn for the year to 31 March 2021 is currently a cash outflow of c£5.8m more than predicted in the Service Plan. It is currently predicted that a combination of lower lump sum payments and a positive contribution of transfers in/out of the fund will lead to a positive cashflow before transfers to/from the custodian of £10.7m. Offset against this is £9.5m transfer to the custodian compared to the original prediction of a £7m divestment, resulting in a variance of £16.6m.

## **6 FINAL ACCOUNTS – DRAFT GOING CONCERN STATEMENT**

- 6.1 The Pension Fund' Statement of Accounts will be approved by the Corporate Audit Committee, before the November deadline, as they form part of the Council's accounts. As part of the audit sign-off process, the Corporate Audit Committee will

have to consider whether the Pension Fund is a going concern. This is of heightened importance this year due to the impact of COVID-19.

- 6.2 In the Corporate Audit committee report accompanying the accounts there will be a statement regarding the going concern of the pension fund. Although the pension liabilities are long term in nature and the funding position reflects the ability to meet these liabilities over the longer term, going concern considers the Fund's ability to meet the liabilities that fall due within 12-months from the signing of the accounts, thus the focus is on cashflow and liquidity of the investment assets.
- 6.3 The statement for inclusion in the covering report is currently drafted as follows (the final statement will be agreed with the s151 Officer):

The Avon Pension Fund has adequate liquidity to meet all liabilities due in the 12-month period from signing of the accounts. The expected payments due to be paid in the period are £203.1 offset by expected contributions of £156.4m giving a net outflow of £46.7m. This shortfall will be met by investment income and divestment of assets. At 31 March 2020 the Fund has assets of £4.5bn of which £304m are in highly liquid assets that are held to provide liquidity to meet payments. There is an additional £1.7bn in listed equity assets which are also highly liquid and can be sold for cash within a short timeframe. (Note: as at 30 June 2020 the Fund value had recovered to £4.9bn with £331m in highly liquid assets). These liquid assets are more than sufficient to meet the forecast shortfall and also any unexpected reduction in contributions. To date there has been no concerning trends regarding timely receipt of contributions. The Audit Committee has concluded that based on this evidence, the Avon Pension Fund is a going concern with no material uncertainties.

## 7 CLIMATE CHANGE

- 7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon and Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

## 8 EQUALITIES

- 8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

## 9 OTHER OPTIONS CONSIDERED

- 9.1 None.

## 11 CONSULTATION

- 11.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	David Richards Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	