Bath & North East Somerset Council

MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**11 DECEMBER 2020**	**AGENDA ITEM NUMBER**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2020** **(2) CASHFLOW FORECAST**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1	Summary Financial Accounts: Year to 31 October 2020
Appendix 1A	Summary Budget Variances: Year to 31 October 2020
Appendix 2	Cash Flow Forecast

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 7 months to 31 October 2020. This information is set out in Appendices1 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 7 months to 31 October 2020.

2.2 The Cash Flow Forecast at 31 October 2020.

2.3 The forecast overspend in Governance and Compliance costs, which is financed through savings elsewhere in the budget.

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 7 months to 31 October 2020 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2021 is for expenditure to be £249,000 below budget.

4.3 Within the directly controlled Administration budget expenditure is forecast to be £264,000 under budget. The forecast reduction in directly controlled expenditure is largely related to salaries, due to delays in filling vacant posts. There are also predicted underspends in relation to staff travel and training, because of the pandemic.

4.4 In the part of the budget that is not directly controlled, the forecast for the year is an overspend of £160,000. This overspend is a combination of a predicted overspend relating to Investment Governance and Compliance with small underspend relating to independent member costs.

4.5 Overall the budget forecast is still within the 2020/21 budget envelop with a small underspend of £104,000.

4.5 There are a number of movements between items for the committee to note:

a) Increase in Compliance Costs budget by £145k from £568k to £713k:

The actuarial budget is largely demand driven by employers plus major projects such as valuations that can be can planned for. The budget includes a contingency which normally covers unplanned work. However, this year the significant increase in regulatory changes and the need to liaise more with Mercers in respect of the impact of COVID on employers and the funding strategy means that much of the contingency has already been used.

The main cost pressures are:

i. Implementation of new funding tool. This has added functionality which should reduce the Fund's reliance (and costs) on Mercer for monitoring individual employers and will feed into covenant monitoring. In addition to normal fees that were budgeted, there were on-boarding costs of all the employer data.

ii. Recalibration of the low risk and LDI strategies for the revised liability profile arising from the 2019 valuation. This is a larger exercise than the annual recalibration for cashflows that was budgeted for (these strategies were not in place at the previous triennial valuation).

iii. Advice arising from RPI reform which has meant changes in market prices for implied inflation need to be reflected in our funding assumptions.

b) Increase in Investment Consultancy by £25,000:

The increase in costs are due to implementation of the dynamic equity hedging strategy and advice on the strategic implications of RPI reform. The upfront costs of implementation of the new hedging strategy are higher than budget due to the approach being taken; however, the ongoing governance and monitoring costs will be lower. These costs are offset by savings elsewhere in the investment consultancy budget and use of contingency.

4.6 Explanations of the most significant variances are contained in Appendix 1A to this Report.

4.7 The ongoing implications of the pandemic and employer covenants, governance and compliance will be fully reviewed as part of the budget planning process for 2021/21 which be presented to Committee in March

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.

5.3 The actual cash flow to 31 October was an outflow of c£21.4m against a budgeted outflow of c£15.7m 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.

5.4 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 £15.3m. Offset against this is a net £8.8m transfer to the custodian compared to the original prediction of a £7m divestment, resulting in a variance of £15.8m. This will result in forecast outturn for the year to 31 March 2021 of a cash outflow of c£0.5m more than predicted in the Service Plan.

6 CLIMATE CHANGE

6.1 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.

7 EQUALITIES

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

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 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	