

Bath & North East Somerset Council

MEETING: **AVON PENSION FUND COMMITTEE**

MEETING DATE: **26 March 2021**

AGENDA
ITEM
NUMBER

TITLE: **2021 - 24 SERVICE PLAN AND BUDGET**

WARD: 'ALL'

AN OPEN PUBLIC ITEM

List of attachments to this report:

- Annex 1: 2021-24 Service Plan and Budget Report**
- Appendix 1 – Scope of Avon Pension Fund**
- Appendix 1a – Admin & Investment Resource**
- Appendix 2a – Service Plan Monitoring of Objectives 2021**
- Appendix 2b – Service Plan Completed 2020**
- Appendix 2c – Service Plan Projects on hold 2021**
- Appendix 3 – Digital Transformation Roadmap**
- Appendix 4 – High Level Structure Chart**
- Appendix 5 – Budget & Cash Flow Forecast**

1 THE ISSUE

- 1.1 The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2021 to 31 March 2024.
- 1.2 The Service Plan (Annex 1) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

- 2.1 That the Committee approves the 3 Year Service Plan and Budget for 2021-24 for the Avon 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.
- 3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2021-24

- 4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three-year budget supports the objectives and actions arising from the plan including work relating to the investment strategy, risk management and compliance and improvements in the administration of the Fund.
- 4.2 The main focus of this plan is as follows:
 - (i) Develop and implement fully digitalised services to members and employers to increase operational efficiency and capacity; this will include gap analysis and specification of digital requirements across all stakeholders
 - (ii) Embed the training and development programme to support digitalisation
 - (iii) Monitor transition of final assets to Brunel and ongoing performance of portfolios and Brunel ensuring Brunel is delivering the Fund's strategic objectives
 - (iv) To meet our climate objectives, review the equity allocation with objective to having all equity assets managed in sustainable or Paris Aligned investment strategies
 - (v) In light of the interim valuation, consider whether the current investment strategy meets the funding objectives or whether the level of risk embedded in the strategy is too low
 - (vi) Implement policies that enable greater flexibility in managing employer risk and scheme exits
 - (vii) Develop further the stakeholder communications strategy for investment strategy and climate change
 - (viii) Plan for the expected burden on Fund administration resulting from the McCloud remedy (including potential Fire scheme related Immediate Detriment cases) and GMP rectification exercises.
 - (ix) Undertake any necessary work to ensure the objectives of the Good Governance Report are met once scheme regulations and statutory guidance are in place.
- 4.3 Full details of the 2021-24 Service Plan are included in the Annex 1. Appendix 2 of the Service Plan shows the new medium-term targets for 2021-24 together with completed targets against the 2020/21 plan and planned projects temporarily paused.

5 BUDGET FOR 2021-24

- 5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2021 are included as **APPENDIX 5** to the Service Plan.

- 5.2 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 highly dependent upon investment performance. They also include governance and compliance expenses which are a consequence of the Fund's policy response to regulations, employer activity and investment strategy. The budget also includes the estimated costs of the pension board. The LGPS regulations require the costs of local pension boards to be met by the local fund.
- 5.3 The budget approved for Administration in 2020/21 was £3.7m. The proposed budget for 2021/2022 increases to £4.0m. The increase will include the appointment of both a Transformation Manager and Project implementation officer and include the strengthening of the existing management team and the temporary additional resource to support administration requirements as a result of the expected McCloud remedy. The previously planned IT system review budget has been removed pending the planned revision to the Administration Strategy and this will be brought to Committee for consideration later in the year.
- 5.4 Governance and compliance costs are set to rise mainly driven by increasing actuarial costs due to employer activity, changes to regulations and new regulations and preparation work for the next valuation cycle including an interim valuation.
- 5.5 Investment management fees (including those for Brunel) are expected to be slightly lower due to reduced fee rates on assets that have transitioned to Brunel. Performance fees (on legacy mandates) are forecast to be lower this year as a result of the pandemic affecting the values of some real assets. The management costs for Brunel (for operations and service delivery) are shown separately. Transition costs are not included as these are taken off the value of the assets at point of transfer.
- 5.6 Cash flow management is crucial as the Fund becomes less cashflow positive (which is exacerbated by prepayments of employer contributions) and investments in private markets increases. The notice period for private market drawdowns are relatively short, thus the investment strategy must ensure there is adequate cash or near cash on a continuous basis. Monitoring of the 3-year cashflow forecast is part of the process.

6 RISK MANAGEMENT

- 6.1 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 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 EQUALITIES

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

8 CLIMATE CHANGE

8.1 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 in the process of addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9 OTHER OPTIONS CONSIDERED

9.1 None

10CONSULTATION

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

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Background papers	Various Accounting Records