

Bath & North East Somerset Council			
MEETING:	AVON PENSION FUND COMMITTEE		
MEETING DATE:	24 SEPTEMBER 2021	AGENDA ITEM NUMBER	17
TITLE:	PENSION FUND ADMINISTRATION (1) EXPENDITURE FOR YEAR TO 31 JULY 2021 (2) CASHFLOW FOR YEAR TO 31 JULY 2021		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1	Summary Financial Accounts: Year to 31 July 2021		
Appendix 2	Cash Flow for year to 31 July 2021		

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 year to 31 July 2021. 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 2022. This information is set out in Appendix 2.
- 1.3 The Going Concern Statement to be included in the Corporate Audit Committee's report accompanying the accounts is drafted in 6.3 for noting.

2 RECOMMENDATION

That the Committee notes:

- 2.1 The administration and management expenditure incurred for the year to 31 March 2022.
- 2.2 The Cash Flow report for the year to 31 March 2022.
- 2.3 The Going Concern Statement for the Pension Fund as currently drafted.

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 2021 are contained in **Appendix 1**.
- 4.2 The forecast for the year to 31 March 2022 is for expenditure to be £137,000 below budget.
- 4.3 Within the directly controlled Administration budget expenditure was £137,000 under budget. The forecast reduction in directly controlled expenditure is related to salaries, in particular delays in filling vacant posts.
- 4.4 In the part of the budget that is not directly controlled there are currently no predicted underspends.

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. Negative cash flows 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 2021 - 2024 Service Plan included a cash flow forecast showing a gross in-flow of c£196.1m and a gross out-flow of c£195.9m giving a net inflow in 2021/22 of £0.2m. The forecast gross inflow included £27m divestments and investment income.

Excluding divestments, the actual cash flow to 31 July was an inflow of c£33.4m against a budgeted inflow of £29.1m for the same period. The difference was mainly due to higher than budgeted contributions received (£2.1m) and lower than anticipated benefits outflows (£2.3m).
- 5.3 The forecast outturn for the year to 31 March 2022 is currently a cash inflow of c£13.3m more than predicted in the Service Plan. It is currently predicted that a combination of lower lump sum payments, higher than predicted contributions and a positive contribution of transfers in/out of the fund will lead to a negative cashflow before transfers to/from the custodian of £13.4m.

6 FINAL ACCOUNTS – DRAFT GOING CONCERN STATEMENT

- 6.1 The Pension Fund's Statement of Accounts will be approved by the Corporate Audit Committee 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.

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 £197.4m offset by expected contributions of £170.5m giving a net outflow of £26.9m. This shortfall will be met by investment income and divestment of assets. At 31 March 2021 the Fund has assets of £5.3bn of which £227m are in highly liquid assets that are held to provide liquidity to meet payments if there is an unexpected shortfall in contributions. In addition, the Fund holds a further £1.9bn in listed equity assets which are also highly liquid and can be sold for cash within a short timeframe. (Note: at 30 June 2021 the Fund value had risen to £5.6bn with £192m in highly liquid assets). These liquid assets are more than sufficient to meet the forecast shortfall and also any unexpected reduction in contributions. There are no concerning trends regarding timely receipt of contributions, with 99.91% of contributions received on time for the quarter ending 31 March 2021.

The Funding level (i.e. the ratio of the Fund's assets to liabilities) was 94% at the last valuation in 2019. By March 2020 the funding level fell due to the fall in equity markets but has fully recovered to 96.9% by 31 March 2021. The strategic asset allocation is set to deliver the investment returns required to achieve full funding over a reasonable period.

It is therefore concluded that based on this evidence the Avon Pension Fund is a going concern with no material uncertainties.

7 RISK MANAGEMENT

7.1 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 appropriate investment, funding and administration strategies in place and that they are regularly monitored. In addition, it monitors the risk register, annual budget and compliance with relevant investment, finance and administration regulations.

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. The Fund acknowledges the financial risk to its assets from climate change and is in the addresses 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 There are no other issues to consider.

10 CONSULTATION

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.

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	