

Bath & North East Somerset Council

MEETING: **AVON PENSION FUND COMMITTEE**

MEETING DATE: **25 March 2022**

AGENDA
ITEM
NUMBER

TITLE: **2022 - 25 SERVICE PLAN AND BUDGET**

WARD: 'ALL'

AN OPEN PUBLIC ITEM

List of attachments to this report:

- Annex 1: 2022-25 Service Plan and Budget Report**
- Appendix 1 – Scope of Avon Pension Fund**
- Appendix 2a – Service Plan Monitoring of Objectives 2022**
- Appendix 2b – Service Plan Completed 2021**
- Appendix 2c – Service Plan Projects on hold 2022**
- Appendix 3 – Admin Strategy Transformation Roadmap**
- Appendix 4 – High Level Admin 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 2022 to 31 March 2025.
- 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 2022-25 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 2022-25

- 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) Implement a new service operating model to facilitate digitalisation and process automation and increase operational efficiency and capacity.
 - (ii) Implement a digital office hub to support staff wellbeing and provide access to resource tools and training opportunities.
 - (iii) Ensure Brunel is delivering the Fund's strategic objectives and actively participate in Brunel's 2022 Stocktake to ensure the Fund's RI objectives are met
 - (iv) Ensure the investment objectives are consistent with the funding objectives of the 2022 valuation and that all RI risks are being managed including our climate objectives and targets and the Risk Management Strategies.
 - (v) Implement policies that enable greater flexibility in managing employer risk and scheme exits
 - (vi) Improve further the stakeholder communications strategy for investment strategy and climate change
 - (vii) Manage the ongoing burden on Fund administration resulting from the McCloud remedy (including Fire scheme related MOU and Immediate Detriment framework) the GMP rectification exercises and the planned introduction of the DWP Pensions Dashboard Program.
 - (viii) Implement the recommendations from the Good Governance Review and The Pension Regulator's Single Code of Practice.
- 4.3 Full details of the 2022-25 Service Plan are included in the Annex 1. Appendix 2 of the Service Plan shows the new medium-term targets for 2022-25 together with completed targets against the 2021/22 plan and planned projects temporarily paused.

5 BUDGET FOR 2022-25

- 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 2022 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 advice for the funding and investment strategies. The budget also includes the estimated costs of the pension board as 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 2021/22 was £3.2m. The proposed budget for 2022/2023 increases to £3.4m. The increase will include the appointment of a Digital Services Manager to strengthen the management team and the addition of a Pensions Payroll officer to build in operational resilience. Temporary additional resource has been added to kick start the digital services team and finally resource has been identified to manage the initial administration requirements as a result of the expected DWP Pensions Dashboard Program.
- 5.4 Governance and compliance costs are set to rise driven by increasing actuarial costs mainly due to the 2022 triennial valuation. In addition, the Good Governance review highlighted the need to increase training for committee members and staff.
- 5.5 The transition of assets to Brunel has achieved lower fees rates overall in terms of basis points per million sterling. In 2022/23 investment management fees (including those for Brunel) are expected to rise due to the higher than expected value of assets and the gradual increase in the Fund's assets invested in private markets which incur higher fees. In 2019 we had 16% invested in private markets; currently we have 23%. Performance fees (on legacy mandates) are forecast to also rise this year as asset values recover to pre pandemic levels. The management costs for Brunel (for operations and service delivery) are shown separately.
- 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 addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable 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

Contact persons	Budget – Dave Richards, Finance & Systems Manager (Pensions) (01225 395259) Service Plan -- Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Group Manager Funding, Investments & Risk (01225 395306)
Background papers	Various Accounting Records