Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**25 March 2022**
TITLE:	**PENSION FUND ADMINISTRATION** **(i) Overview & Summary Performance Report** **(ii) Risk Register** **(iii)Budget Monitoring**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Performance against SLA & Workload Appendix 2 – TPR Data Improvement Plan Appendix 3 – Progress on Key Projects Appendix 4 – Risk Register	

1 THE ISSUE

1.1 The purpose of this report is to present the Fund's performance for the three months to 31st December 2021 against its key performance indicators (KPI's) in relation to the administration of pension benefits.

1.2 The report also addresses the Fund's business operational position from an overall risk perspective and provides an update forecast on the Funds cash flow and budget.

2 RECOMMENDATION

The Committee is asked to Note:

2.1 Fund performance for the three months to 31st December 2021.

2.2 The current Risk Register.

2.3 The updated cashflow forecast

3 COVID-19 AND FUND BUSINESS CONTINUITY

3.1 With multiple lockdowns in place since 23rd March 2020, the Fund focussed on communications across all stakeholders to monitor and manage business operations remotely.

3.2 As the government begins to remove COVID restrictions, APF officers are undertaking a more blended working approach in line with arrangements being introduced by the

employing authority. Temporary working arrangements are now in place to occupy 15 workstations in the Guildhall.

3.3 Arrangements for future long term office accommodation are currently taking place at high level with discussions between the Head of Business Finance & Pensions and B&NES.

3.4 In light of changes made to operational service delivery brought about by the pandemic, the management team are in the process of reviewing current Business Continuity Plans and a report will be presented to the Pensions Committee and Pension Board at a future date.

4 WORKLOAD

4.1 **Appendix 1** provides details of APF performance up to the end of the last quarter for KPI's measured against the current SLA. Generally, the Fund continues to operate below its desired target of >90% for most case types (Annex 1) although the case-by-case breakdown (Annex 2) evidences an overall improvement in critical processes for retirements and death cases from the previous quarter. Generally, however, KPI benchmarking performance has declined over the past year (Annex 3).

4.2 Contributory factors to underperformance can be associated with the inclusion of the current backlog project and the processing of historic workload cases impacting KPI's. in addition, there has been additional workload pressure created by an increase of 3,200 scheme leavers over the past year.

4.3 As outlined in the previous report, a short-term project is in progress to complete the build-up of processing work identified at the end of September 2021. The project is set to run from October to March with the aim being to clear down all 'backlog' cases over a six-month period whilst continuing to maintain all new business as usual tasks on time.

4.4 Detail on progress made to clear the backlog are shown below. Just over 35% of cases remain outstanding and currently there is a projected six week overrun on the original completion date due to an increase in staff officer resource transitioning from the project to support business as usual and the complexity of a number of backlog cases remaining.

Member Services Backlog Dashboard as at 14/02/2022 06:50:03

Project Start	11/10/2021	Starting Backlog	4,230	Days Allocated	171	Comp Rate (orig)	24.74	Projected End	08/05/2022
Today's Date	14/02/2022	Completed	2,547	Days Elapsed	126	Comp Rate (act)	20.21	Running Late	
Project End	31/03/2022	Outstanding	1,683	Days Remaining	45	Comp Rate (req)	37.40	% of Work Remaining	35.36%

4.5

5 RESOURCE RECRUITMENT & TRAINING

5.1 Recruitment and retention remain a key factor impacting business operations. With a further 2 resignations in the recent past the administration team is currently carrying 8 vacancies across both employer and member services teams in addition the Technical & Compliance post remains unfilled. The administration is also carrying three maternity absences across the service at this time. Of the above, Employer Services currently have 5 FTE outstanding vacancies, after 2 rounds of recruitment the posts remain vacant.

5.2 As such the previously agreed phased recruitment plan is behind schedule as staff movement continues to impact progress. Recruitment continues to backfill vacant

posts, maternity cover and secondment to projects and overstaffing is being considered at Assistant Pensions Officer level to mitigate the impact of further staff movement.

5.3 To mitigate operational workload some project work has already been outsourced. In particular; GMP reconciliation project and the address tracing project. Officers are now in discussion with external bodies to procure additional support for the leaver data backlog (appx 2,000 cases). Mercer consultants continue to provide Technical & Compliance advice and guidance.

6 FIRE PENSION SCHEME – MOU & FRAMEWORK AGREEMENT

6.1 The Fund continues to support the Avon Fire Authority in providing affected members with retirement options as identified under the immediate detriment and framework (IDF) agreement in lieu of the McCloud remedy.

6.2 It is for each Fire & Rescue Authority as the relevant scheme manager to adopt the IDF. Avon Fire Authority previously agreed not to adopt the full MOU and ID Framework at its meeting in December 2021. It will review its decision at the next meeting on 30th March 2022.

6.3 If the IDF is adopted by AFA this will enable payments to be considered for affected members in advance of the remedying legislation which is expected in October 2023.

6.4 Full adoption of the IDF by Avon Fire Authority will impact business operations as resource is re focussed and work will need to be reprioritised in the short term. Further information will be presented to the Pensions Committee and Pension Board as the situation evolves.

7 SUMMARY OF FUND MEMBERSHIP DATA QUALITY

7.1 As we head toward the financial year end officers are now making preparations for the triannual valuation, and the following actions are being taken:-

- Using the Mercer data tool we are reviewing all consistency errors, clearing approximately 1,000 errors
- Reviewing employer data by employer size and data liability as indicated by the Mercer tool. We are working through the data errors and will be contacting employers to resolve queries where data is missing.
- CARE roll up reports used to identify missing data and casual workers that have not been paid for some time and requesting employers to make them leavers.
- Back log of leavers to be reviewed, we are looking to identify leavers from smaller employers to help reduce their liability.
- Employer Relations team are running training workshops for employers that have received penalty charges for 2020/21 year end.
- TPR data queries are being analysed and split between current and historic cases and will be project managed by a senior member of the Employer Services team to complete.

The data tool from Mercer has been a fundamental source of information as it ranks employers by liability and size to ensure we can focus resource.

7.2 Following a review of the 2020/21 year end employer submissions, 6 penalty charges have been issued in accordance with the Pensions Admin Strategy:-

- 1 x excessive data queries

- 2 x late returns
- 3 x Disproportionate work

In addition to the above, 12 Data Improvement Plans have been issued to other employers who have data issues but did not receive a penalty charge. 5 of the fined employers have attended pension data workshops.

7.3 Officers are developing the TPR DIP report to provide an annual trending view of the outstanding cases for the last 12 months. A draft of the current report is attached at **Appendix 2**

7.4 **Valuation Timeline**

7.5 All employers have been contacted with regard to year end data requirements and have been instructed to provide the Fund with complete membership data returns by 30th April. This will allow the Fund two months to identify any data cleansing and processing of pre - 31st March case work.

7.6 The full data extract will be supplied to the scheme actuary at the end of June for analysis.

7.7 For committee and Pension Board the 2022 valuation exercise will start with a joint workshop in June. The workshop will discuss the indicative results (which reflect changes in financial markets only) and the assumptions to be used in the valuation. It will also cover the Funding Strategy Statement (FSS) as the revised draft statement will be considered by the Committee at its June meeting before it is issued to employers for consultation. The Pension Board will also be part of the FSS consultation. At the September meeting the FSS will be approved by committee having considered the consultation responses and employer specific contribution results will be disseminated from late October. The outcome of the 2022 valuation will be taken to the March 2023 committee meeting

8 PROGRESS ON KEY PROJECTS

8.1 **Appendix 3** provides the current position on a number of key operational projects currently in progress with an outline of further actions to be taken.

8.2 This is not a comprehensive list of all strategic admin projects and will be developed going forward to reflect APF expectations measured against those as set out in the service plan.

8.3 Whilst the majority of projects remain in progress and on target some delays have inevitably occurred in other areas and overall strategic objectives will need to be reviewed and recalibrated as the Fund presents the business plan for 2022/2025.

9 RISK REGISTER

9.1 The Risk Register follows the Council's format for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk. Risks identified cannot be eliminated but can be treated via monitoring.

9.2 The risks identified fall into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

9.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

9.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in March 2022.

9.5 The management of the risk register has been updated with the introduction of a more robust process for identifying and managing risks. The register including likelihood, impact and mitigating actions are attached at **Appendix 4.**

9.6 Following a recent risk management audit, a further review will be carried out of the process and the risk register to make the correlation between the risks identified in the Investment, Funding and Administration Strategies and the risk register clearer.

9.7 The quarterly review took place in March 22 and the management team agreed the following changes and updates:

In response to the developing Russia / Ukraine crisis we have increased the following risks:

(1) R42 – Political pressure to reform the scheme and direct investment

Likelihood has been increased to almost certain. Brunel PP have issued a statement to say that amongst a number of other measures they will divest (where able given sanctions) from all Russian controlled and owned assets, bonds and equities as well as prohibiting any new investments to Russian assets.

As part of the Levelling Up agenda, further regulations are expected to direct investments of LGPS Funds. In addition, under the Public Services and Judicial Offices Bill currently passing through parliament the Secretary of State would be able to issue guidance to those authorities that administer public sector pension schemes, including the local government pension scheme, that they may not make investment decisions that conflict with the UK's foreign and defence policy.

(2) R26 – Failure to earn investment returns

Likelihood has been increased to almost certain. Ensuing sanctions, the disruption to the oil/gas sector and supply chains which will increase inflationary pressure and investor responses are expected to have a negative impact on broad asset markets and there is a risk of stranded assets (limited direct exposure to Russian assets; main risk in global companies that have Russian assets).

Updates to other risks which did not result in a change of score are:

(3) R60 – Climate emergency

Additional measures now to be undertaken on an annual basis to assess portfolios alignment with net zero and interim decarbonisation targets (Mercer ACT) from a bottom-up perspective.

(4) R01 – Disaster recovery & business continuity

Business continuity plan currently being reviewed by Audit, draft plan now received for review. Cyber security benchmarking exercise completed with AON and results analysed August 2021. Further internal assurances required from IT. An action plan is currently being developed and a full report will be taken to Pension Board in May 2022 & Committee in June 2022.

(5) R40 – Cashflow profile is maturing

Unitary authorities and now Universities are paying their future service rate in advance for 22/23. With deficits also paid in advance this will means approximately 40% of contributions for the year will be received in April. Our cash limit was due to be increased by £10m, so this will mean we can hold more cash to offset need for regular drawdowns. Cashflow is monitored daily and the Investments team are warned in advance of future expected divestments.

10 BUDGET MONITORING

10.1 The budget for the year (y/e forecast) is predicted to be broadly on budget as shown below. The detailed budget and cashflow monitoring tables can be found on the Mod Gov Library.

	Status	Comment if significant under/over
Administration		Reduced salaries expenditure due to delays in filling vacant posts against budget in Benefits team
Governance & Compliance		
Investment Fees		
Pensions Board		
Total		

Key:

	Significant underspend (>5%) against budget for the year
	On budget for the year (not significantly under or over)
	Significant overspend (>5%) against budget for the year

11 RISK MANAGEMENT

11.1 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 and investment management structure 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.

12 EQUALITIES STATEMENT

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

13 CLIMATE CHANGE

13.1 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 Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

14 OTHER OPTIONS CONSIDERED

14.1 There are no issues to consider not mentioned in this report.

15 CONSULTATION

15.1 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	*Geoff Cleak, Pensions Manager; Tel 01225 395277*
Background papers	*Various statistical documents.*
Please contact the report author if you need to access this report in an alternative format	