Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 27th September, 2013, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair), Lisa Brett and Ian Gilchrist

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), William Liew (HFE Employers), Shirley Marsh (Independent Member), Steve Paines (Trade Unions) and Councillor Steve Pearce (Bristol City Council)

Co-opted Non-voting Members: Rowena Hayward (Trade Unions), Richard Orton (Trade Unions) and Paul Shiner (Trade Unions)

Advisors: Jignesh Sheth (JLT Benefit Solutions) and Tony Earnshaw (Independent Advisor)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager), Alan South (Technical and Development Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

19 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

20 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt, Councillor Clive Fricker, and Councillor Mike Drew.

21 DECLARATIONS OF INTEREST

There were none.

22 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

Officers reported that Steve Macmillan, the Pensions Manager, had undergone a triple bypass operation and was now recuperating. Members requested that their wish for his speedy recovery be communicated to him.

23 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

24 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

25 MINUTES: 21ST JUNE 2013

The public and exempt minutes of the 21st June 2013 were approved as a correct record and signed by the Chair.

Agenda item 13: Statement of Investment Principles: Councillor Pearce informed the Committee that Bristol City Council had narrowly passed a resolution calling on the Mayor of Bristol to press the Fund and its employers to disinvest from tobacco. Councillor Pearce said that he had asked the Mayor for a response. Councillor Brett reported that the Bath and North East Somerset's Health and Wellbeing Policy and Development Scrutiny Panel had expressed its disapproval of investment in tobacco and that this has been communicated to the officers of the Fund. It was noted that this issue was discussed as part of the review of Responsible Investing in 2012, and that it will be reviewed next when the Committee has its annual review of Responsible Investing in 2014.

26 APPROVAL OF ACCOUNTS & GOVERNANCE REPORT AND ANNUAL REPORT & ACCOUNTS

The Finance & Systems Manager (Pensions) presented the accounts. He informed Members that these had already been approved by the Corporate Audit Committee. He drew attention to the changes made since the draft accounts were presented to the Committee at the June meeting, which were listed in paragraph 4.1 of the covering report.

Mr Hackett presented the Annual Governance Report. He said that the auditors had given an unqualified opinion on the Fund's financial statements. There was one misstatement and a few disclosure changes, which were listed on agenda page 61. Asked by a Member about a management response to the internal control issues noted on agenda page 63, he said that this had been tabled at the recent meeting of the Corporate Audit Committee. Officers said that a copy of this could be made available to any Member who required one.

Members then considered the Fund's Annual Report. A Member queried whether the number of Investment Panel meetings had been stated correctly. The Investments Manager said she would make sure the information is correct.

A Member asked whether there was a strategy for raising employers' contributions to 16%. The Head of Business, Finance and Pensions replied that there was a triennial valuation which looked at liabilities and contribution rates. The Member asked whether the Committee could influence this process. The Head of Business, Finance and Pensions replied that the Fund worked with the actuary to achieve a balance between affordability and the need to cover the liabilities. The Chair said that the issue was generally discussed between the actuary and the Fund's four largest employers.

RESOLVED:

1. To note the final audited Statement of Accounts for 2012/13.

2. To note the issues raised in the Annual Governance Report.

3. To approve the draft Avon Pension Fund Annual Report 2012/13.

27 FUNDING STRATEGY STATEMENT

The Investments Manager presented the report. She reminded Members that the Committee had agreed the broad principles to be included in the draft Funding Strategy Statement after the Committee workshop on 21 June 2013. The draft had been circulated to the employers, requiring them to return comments by 10 September 2013. Very few comments had been received. Individual employer results from the valuation would be disseminated in October and November. An Investment Forum had been arranged for 22 November 2013. The actuarial outcome would be reported to the Committee at the December 2013 meeting, which would be attended by the actuary.

RESOLVED to approve the Funding Strategy Statement as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete, for general publication and distribution to the Fund's employing bodies.

28 LGPS 2014 UPDATE

The Technical and Compliance Manager updated Members. The Fund's responses to the two consultations that had been ongoing at the time of the last meeting were attached to the report. The Regulations for the new scheme were now expected to be issued in mid-October.

A Member asked whether any analysis was being done on the possible impact on administration costs of the new scheme. The Head of Business, Finance and Pensions replied that the Fund's officers had anticipated the impact and resourced appropriately.

A Member urged that there should be effective communication with employees about the new scheme.

RESOLVED to note the response made in August 2013 by Bath and North East Somerset Council in connection with the relevant consultations.

29 RESPONSES TO CLG DISCUSSION PAPER ON GOVERNANCE ARRANGEMENTS AND CALL FOR EVIDENCE

The Investments Manager presented the report. She tabled a copy of the Fund's response to the DCLG's call for evidence (attached as Appendix 1 to these minutes) The response to the governance paper supported the proposal for a national supervisory board but not the proposal for local scrutiny committees in addition to statutory committees. The call for evidence focussed on investment and administration costs, but in fact the key issue was liabilities, as had been pointed out in the responses of the majority of pension funds. The DCLG intended to consult on proposed changes to governance arrangements with a view to having the new arrangements in place in 2014/2015.

Members supported a national supervisory board, but not local scrutiny boards.

Members had a general discussion about some of the other ideas that were being put forward in relation to the LGPS, such as merging Funds and the joint administration of Funds.

RESOLVED to note the Fund's response to the governance paper and call for evidence.

30 INVESTMENT PANEL ACTIVITY AND MINUTES

The Assistant Investments Manager presented the report. He said that there were no recommendations to the Committee from the Panel. At the 18 July 2013 meeting, the Panel had agreed:

1. the emerging markets mandate specification and the make-up and timing of the selection panel;

2. the target allocation within the overseas regional equity portfolio and arrangements for annual rebalancing;

3. the changes to the allocation within the bond portfolio and timescale for the changes.

The Chair of the Investment Panel, Councillor Charles Gerrish, commented that the new system of Red Amber Green reporting on investment manager performance was extremely useful and that the subsequent performance of MAN vindicated the decision to disinvest from them.

A Member asked whether the Panel scrutinised overperforming managers to see if there were lessons that could be learned by other managers. Councillor Gerrish replied that the Fund's managers had varying mandates, so that direct comparisons between them were often very difficult. However, discussions with those managers who were performing well helped the Panel formulate questions to put to those who were doing less well.

A Member asked whether the Panel was able to respond quickly to events. Councillor Gerrish said that because of the change in delegations it was now possible to respond faster than it had been previously. However, any process inevitably took time. The Investments Manager said that it was important to make any changes at the right time as the costs of hiring and firing managers were quite significant.

RESOLVED:

1. To note the draft minutes of the Investment Panel meetings held on 18 July 2013 and 4 September 2013;

2. To note the decisions made by the Panel at the meeting on 18 July 2013.

31 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report. He asked Members to note that the funding level had increased by 5% to 74%, despite a fall in the value of the assets; markets had reacted negatively to the Chairman of the Fed's comments on the tapering of QE. He drew attention to the progress on implementing the new investment strategy detailed in section 6 of the report. The annual assurance on the control environment of third party suppliers had thrown up no issues to bring to the attention of the Committee.

Mr Sheth commented on the JLT report and the market background.

A Member referred to the repeated fines and compensation payments imposed on the financial services industry, which had totalled many hundreds of millions of pounds, but had not had any discernible impact on behaviour. These penalties had been paid with shareholder funds; he believed that the industry owed this money to shareholders. He suggested that if information about these penalties were presented in a more concrete and personalised way, e.g. if they were quantified in terms of the loss they represented to each pension fund member, there might be more pressure for reform. Mr Sheth responded that regulation of the industry had been strengthened in a number of ways since the financial crisis. There was further discussion about the regulation of the banking sector by members. A member drew attention to the LAPFF Quarterly Engagement Report, which gave information on the issues that LAPFF was pursuing with companies.

RESOLVED to note the information set out in the report.

32 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the budget report. The directly-controlled administrative budget was forecast to be £20,000 below budget because of late appointments of staff in the Benefits and Data Quality teams. Expenditure not directly controlled was forecast to be £960,000 over budget, because of increased investment management fees, reflecting the rise in the markets since the budget was set.

The Pensions Benefits Manager presented the performance report. He invited Members to note the information about the performance of the Pensions team given in section 6 of the report. He circulated an amended version of Annex 2 to Appendix 7 (deferred performance cases within target for the larger employers in the Fund) and drew attention to the great improvement in performance by Bath and North East

Somerset and North Somerset Councils. However, the performance of Bristol City Council had fallen significantly and they had cleared only 5 cases within target. Training had been provided to some staff of BCC, but they had changed their working practices without notifying the Pensions Team. Training had subsequently been provided to another group of staff. Electronic transactions had increased by 5.37% to 49%. He asked Members to note the very competitive administration costs of £17.34 per member of the Fund, compared with £21.42 for the average fund and £20.45 for the smaller comparator group.

A Member congratulated the Pensions Team on the increase in the proportion of electronic transactions and asked when it was likely to reach 100%. The Head of Business, Finance and Pensions replied that there was a strategy to increase electronic transactions. Employers were being encouraged to send data electronically, and the larger employers were increasingly doing so, though South Gloucestershire was lagging behind the other Unitary Authorities in the implementation of i-Connect. As part of the strategy employers could be charged more if they did not send data electronically. The Pensions Benefits Manager said that BCC previously had only two officers dealing with leavers. He reminded Members that employers who sent data late could now be charged.

A Member noted that the number of deferred members had doubled and asked about the impact on workload. The Head of Business, Finance and Pensions said that BCC had decided to opt all employees into the Fund under Auto-enrolment requirements. It was critically important that all employers recognised the need to invest in technology and provide information in a timely fashion.

A Member commented that the number of active elected members seemed very low. The Pensions Benefits Manager reminded Members that North Somerset members had elected to withdraw the scheme from its elected Members.

A Member commented that deferred members always accounted for most gaps in member data, because they often moved elsewhere. He said that another pension fund with which he was involved used a volunteer welfare officer to keep track of deferred members, paying the officer only their petrol costs. He thought that this worked quite well.

A Member noted the CIPFA benchmark data given in Appendix 8 and wondered whether benchmark data was available for investment costs. Referring to the risk register in Appendix 9, she said she thought that some risks were quite trivial and that she would like to know the net risk carried by the Fund. The Head of Business, Finance and Pensions responded that benchmark data was constantly being improved and that the Pensions Manager had given a great deal of attention to it.

RESOLVED to note:

1. Administration and management expenditure incurred for 4 months to 31 July 2013;

2. Performance Indicators and Customer Satisfaction feedback for 3 months to 31 July 2013;

3. Summary Performance Report for period from 1 April 2011 to 30 July 2013;

4. Risk Register and 2013 CIPFA Benchmarking Comparators report.

33 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.46 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

This page is intentionally left blank

Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council, Floor 3 South,
Riverside, Temple Street, Keynsham, Bristol BS31 1LA
Tel: 01225 477000 ~ Fax: 01225 395258
Website: www.avonpensionfund.org.uk

AVON PENSION FUND

Direct Line: 01225 395306

Email: liz_woodyard@bathnes.gov.uk

Date: 27 September 2013

Dear Ms Edwards

Call for evidence on the future of the Local Government Pension Scheme (LGPS)

Thank you for the opportunity to respond to the call of evidence on the future structure of the LGPS. The paper seems to make the assumption that the investment costs, investment performance and size of LGPS funds are correlated and therefore the funds are inefficiently managed. We do not believe there is evidence to support this assumption. The key problem all funds face is managing the liabilities which are determined by central government regulations not local policy. Therefore we believe that the focus of reform should be on enabling LGPS funds to work better together by reducing the restrictions around investment and procurement regulations and through the simplification of the LGPS regulations in general.

The Avon Pension Fund's response to the five questions is as follows:

Question 1 - How can the LGPS best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to become more efficient and to promote stronger investment performance?

The current structure of the LGPS Funds already has a high level of accountability to taxpayers and other parties for the following reasons:

(i) They are highly regulated and legislation requires detailed disclosures about local funds e.g. financial accounts, investment and administration performance and costs, and statutory policy statements.

(ii) Best practice governance arrangements ensure stakeholders are represented in the decision making process

Furthermore, the shadow National Scheme Advisory Board (the “Board”) is now in place to ensure best practice is enshrined throughout the LGPS in respect of governance and transparency of data. Having established such a body, with wide representation, it would seem illogical to not allow it to fulfil its role.

The Avon Pension Fund (“the Fund”) has a Committee and an Investment Panel, representing a wide range of stakeholders, which provides strong local accountability to members, employers and taxpayers. This is particularly important given the continuing fragmentation of the employer and membership base away from the local authorities. The Avon Pension Fund also has the benefit of independent challenge from two independent voting members, which helps to reinforce local accountability on a consistent basis irrespective of the political environment. A locally based governance structure also fits in with the government’s Localism Agenda. As a locally based fund, it is able to hold a wide range of employer and member forums and events each year ensuring all stakeholders are fully informed and engaged with issues affecting the Fund and LGPS. These meeting are complemented by our website and communications activity.

The Fund adheres to a high level of disclosure with a significant amount of information made publicly available on our website, including meeting agendas, minutes, annual reports and statutory documents. The Fund discloses all administration and investment costs in its annual report. Administration and investment performance is disclosed quarterly in the committee and panel papers (see later answers for comments on comparing costs and performance)..

Whilst it may be possible to achieve economies of scale given the variation in the size of funds across the LGPS, cost efficiency cannot be the only objective to drive the governance structure. Local accountability and provision of a quality service to members and employers are also key objectives. Therefore determining the optimum size of any fund must take these into account.

Therefore it is not clear how changing the structure of the scheme will improve accountability and efficiency compared to the current structure which allows local funds to make local decisions to meet their own local circumstances.

Question 2 - Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

We would support the high level principles but believe they ignore the purpose of the LGPS - to provide a good quality pension service which should be another high level objective. Another high level objective should be enabling funds to work together more easily. If funds work collaboratively without incurring reorganisation costs, efficiency should increase and costs be managed more effectively.

Although dealing with deficits is a key issue affecting all funds it is difficult to understand how structural reform of the funds will resolve this issue as the scheme structure and more to the point the employee benefit structure is determined by legislation. The only way to meaningfully address the deficits, given the size of the liabilities, is to reform the benefits structure, in particular the accrued benefits which has not been addressed in the LGPS 2014 scheme.

Sustainable pensions require deficits to be managed, and the size of deficits far outweigh the costs of investments and administration, especially after the costs of transitioning to a newly reformed structure are taken into account. LGPS funds as currently structured have scope to mitigate liability risks through their investment and funding strategies.

Investment performance is key to minimising deficits given that it is the funds only controllable variable. A small deviation from performance targets will have a significant impact on the funding position compared to changes in the investment and administrative costs. As at 31 March 2013 the Avon Pension Fund is valued at £3.1 billion with total costs (administration and investment) of £13 million or 0.42% of the Fund's assets (of which 0.33% relate to the costs incurred in the management of the Fund assets). A 0.5% underperformance of investment returns would therefore cost the Fund c. £15 million i.e. more than the total costs. Given the 10 year investment return achieved by the Avon Pension Fund is 9.6% p.a., the total cost base of 0.42% is paid for by c. 4% of the money generated by investment returns annually.

Therefore the investment strategy and not investment costs are the driver of performance. The Fund regularly reviews it strategy, has built diversity and flexibility into the strategy to enable it to take advantage of market opportunities and ensures there is an appropriate balance between risk and return. The adoption of more diversified and risk focused strategies has increased the investment management fees. However, such strategies are expected to generate superior risk adjusted returns net of fees to assist in managing liabilities, especially in the short term.

Question 3 - What options for reform would best meet the high level objectives and why?

The options for reform being debated range from keeping the status quo, to increased collaboration, to regional/national mergers.

Status quo retains locally accountability with funds able to make decisions in respect of service delivery and investment strategy that it determines is in the best interest of the fund.

Currently there are a number of initiatives that demonstrate how LGPS funds can be structured, for example, LGSS in Northamptonshire and Cambridgeshire, Devon and Somerset's shared administration service, the South West (SW) framework agreements for specialist advice (in which the Fund participates) and the national framework agreements. These arrangements address efficiency and quality of service delivery, reducing procurement costs and increasing value for money, all of which are achievable through collaboration rather than merging of funds. The SW framework agreements have produced cumulative savings of £1.5m to date and will continue to generate savings into the future by minimising procurement costs and achieving competitive fees. The Fund will use the SW framework agreements when it re-tenders its actuarial and investment advisory contracts in 2014.

Many funds already work collaboratively at a local or regional level. For example, the SW funds are producing regional communication materials for the LGPS 2014 scheme, using generic materials from the LGE.

There are also initial signs of collaborative work within investments, for example, the collaboration by the five funds (Greater Manchester, West Yorkshire, South Yorkshire, West Midlands and Merseyside) to set up a £250m investment fund to invest in projects to promote economic growth. Such collective investment schemes could become an effective way for LGPS funds to work together to improve investment returns net of costs, but with each fund investing in line with its own investment strategy.

A recent analysis of LGPS funds by WM Performance Services shows a lack of correlation between the size of funds and investment performance.

Without overwhelming evidence to demonstrate that larger funds achieve superior investment performance it is difficult to argue for the creation of larger funds. The costs of transitioning towards a new structure, that would have to address the issue of local accountability, is likely to outweigh any savings through better economies for scale, especially in the short to medium term. In the short term it could potentially generate increased costs.

There are also a range of as yet unquantifiable risks associated with creating larger funds; the potential reduction in competition within the investment industry, the capacity to manage larger mandates which could deter specialist, boutique managers from bidding for mandates, greater concentration risk and potentially greater volatility of returns as strategy diversification is reduced.

To facilitate greater collaboration between funds, the regulations need to be clarified and simplified. The restrictions in the investment regulations need to be removed to enable collaboration on investment strategies and the procurement rules altered to reduce the bureaucratic process for establishing framework agreements and other innovative ways of working together.

In summary, collaborative working is enabling the LGPS to meet the high level objectives and therefore reforms should focus on enhancing these opportunities. There is already significant momentum around such initiatives and any gains could be lost if funds have to focus on transitioning to larger funds. In addition, uncertainty over the structure of funds could reduce the focus on investment strategy and could possibly lead to funds delaying or postponing investment decisions to avoid incurring advisory and transitional costs.

Question 4 - To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

Our answer to Question 3 covers some of the secondary objectives, mainly cost effectiveness of administration and investment strategies.

Additional points are:

(i) To improve greater flexibility of investment strategies and reduce investment fees, a complete revision of the Investment Regulations is required. This would enable funds to invest as they think appropriate and reduce money spent on obtaining "advice" as to whether an investment is permitted under the regulations. In addition, investing via collective investment vehicles will assist funds, especially the smaller funds, accessing the full range of investment opportunities at a lower cost.

A recent benchmarking survey (sponsored by Hymans Roberson) on LGPS investment management costs concluded that LGPS costs are comparable to a peer group of pension funds. The research shows that investment manager fees paid by LGPS funds are competitive and suggests that merging of funds will not significantly lower fees. It does note that lowering of fees on the more expensive alternative asset classes could be achieved through investing via collective investment vehicles.

(ii) Given the changes already made to the regulations to facilitate investment in partnerships, funds are able to invest in infrastructure, if it meets their investment objective. There are appropriate collective vehicles available for indirect investing and the proposed Public Infrastructure Platform should channel funds into UK public sector infrastructure as well as private sector projects. Therefore this should not be an objective of the reform.

(iii) Access to high quality staffing resource (assuming this to mean more experienced, better qualified and more skilled) will vary across the country. It should be recognised that there is a highly competitive market place for such staff, especially in investments, where local authority pay scales are not competitive with the private sector and creating larger funds will not necessarily address this issue. Collaboration between funds on expertise, for example informal "centres of excellence" for more complex strategies such as liability hedging, could provide better resources and expertise. The viability or not of this could be considered by the National Scheme Advisory Board in due course.

(iv) Again collaboration could be a way of utilising and scaling up in-house investment expertise without full merger or shared service.

(v) In respect to cost effective administration, another area where LGPS funds are incurring additional costs and having to manage significant risk is in the increasing fragmentation of the employer base. Avon Pension Fund has almost 200 employers and it continues to grow, mainly due to the creation of Academies and continued outsourcing by scheme employers. The experience of these new arrangements is that pension matters are not a priority for these new organisations who often find themselves in difficulties falling foul of regulations. Administration authorities have to work hard with employers to resolve these issues and ensure they understand their responsibilities. Therefore, it would help if the LGPS Regulations were strengthened in this area making clear the legal responsibilities of scheme employers and giving funds greater and more immediate powers to take punitive measures. This would give a better balance between enabling and encouraging free market competition and innovation in public service delivery with its impact on the LGPS funds.

Question 5 - What data is required in order to better assess the current position of the LGPS, the individual scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

Whilst the LGPS generates a significant amount of data at the local level (especially in annual reports), analysis at the national level is limited to the WM Investment performance statistics, SF3 returns and the CIPFA Benchmarking club for administration costs (all of which the Fund participates in).

The provision of comparative data is very useful to funds in setting budgets, comparing performance and for disseminating cost and performance information to a wider audience. Therefore, development of the existing comparative data should be considered as part of the remit of the National Scheme Advisory Board. The analysis of any data must be meaningful, give consistent insight that can be used by funds in managing budgets and informing decisions and must be over relevant timescales.

In the case of investments, investment strategies are set over the longer term therefore, analysis over multi-year periods is appropriate. In addition, the analysis must include the level of risk associated with the overall strategy as well as returns. Investment costs are not currently benchmarked and as investment fees are usually referenced to assets under management, monetary costs identified in annual reports are not meaningful comparisons. Therefore costs should be benchmarked as a per cent of asset values or cost per member. Any analysis must be on a comparable basis with clear instructions on the costs to be included (for example, under current accounting conventions not all funds include pooled fund fees that are deducted at the pooled fund level in their annual report, thus understating fees). However, the fee rate charged for an investment mandate will vary according to the size of the mandate and the complexity or resources required for the mandate (for example, a UK equity mandate with a Socially Responsible Investing (SRI) approach may attract a higher fee than the same mandate without the SRI input). The disclosure and analysis of investment data and costs needs to be improved to give a meaningful comparison of efficiency and value for money across the funds. Ultimately what matters is the net investment return after taking into account fees paid.

Pension administration is more suited to benchmarking costs given the homogeneity of the processes. However, the current benchmarking focuses on costs and does not effectively incorporate value for money or quality of service. The data is not always consistently disclosed which can lead to misleading analysis. The Avon Pension Fund sets its own budget and clearly identifies the services it “buys” in from the council. Furthermore, the Fund has made significant decisions over recent years to invest in capacity, mainly IT systems and to a lesser extent staff, to ensure it increases productivity yet maintains a high quality service whilst implementing the new scheme. Such “investment” can increase short term costs significantly before generating lower costs per unit in the medium term. A facility for the cost of investing in software/hardware to be spread over the useful life of these assets should be incorporated into the benchmarking exercise. The output of the benchmarking analysis is detailed but it is not easy to identify whether funds are cost effective and providing value for money.

With a national body established, it would be sensible for the National Scheme Advisory Board to collect, analyse and publish data for the scheme as a whole and comparative fund data. This would assist local funds to benchmark their own performance and costs to inform decision-making. It would also increase transparency and accountability to the taxpayer, members and employers and demonstrate value for money. The Scheme Advisory Board should decide on the information to be collected and frequency of the analysis. As much of the information is already available, refining the analysis should not entail significant additional work or costs.

Conclusions

The Avon Pension Fund believes that current initiatives around collaboration and shared services determined by local funds are the most effective and appropriate way that the LGPS will improve efficiency and investment performance. The workload facing these funds is ever more demanding given the fragmentation of the employer base and introduction of the new scheme. Challenging funding positions require greater interaction with employers by funds and greater scrutiny of investment strategies and opportunities. All of this supports maintaining locally managed funds, collaboration and use of collective investment vehicles in areas that generate greatest value for money. The Avon Pension Fund’s policy is to participate in collaborative initiatives, either within the south west region or nationally and the Fund is exploring shared arrangements with other local funds.

Yours sincerely,

Tony Bartlett
Head of Business Finance and Pensions

This page is intentionally left blank