THE AVON PENSION FUND

SERVICE PLAN

2012 - 2015

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1. INTRODUCTION

The Local Government Pension Scheme is facing some of its most significant changes for many years that will impact financially and operationally on all areas of the Avon Pension Fund and its Employing Bodies. The Hutton Report on Public Sector Pensions set out a range of principles to shape future public sector pension schemes and proposals for the LGPS will affect contributions, benefits and accessibility to pensions.

Increasing longevity pressures together with a prolonged economic downturn has pushed affordability to the top of the agenda and a new scheme which balances the relative affordability of employers and members is scheduled to come into effect in April 2014. This change coupled with the government's objective of making all employees save for a future pension through auto enrolment will put severe pressure on the administration of both the Fund and Employer. Whether the new scheme has the desired effect on costs remains to be seen, but this will be taken account in the 2013 Valuation process at which point the Fund will need to reconsider its Investment Strategy.

These changes come on top of existing pressures; the number of employers is increasing exponentially as Local Authorities divest themselves of services through outsourcing and the creation of academies removes schools from LEA control, virtually doubling in less than a decade; the number of Fund members has similarly increased by two-thirds in the last decade; the level of diversification within the Fund, as a result of Investment Strategy changes, has increased the number of fund managers to three times its level in 2006, a period during which the level of scrutiny of the Fund through regulation and our own governance arrangements has also increased significantly. Now during one of the worst recessionary periods in the UK's history the Fund is dealing with the financial difficulties faced by some of its smaller Employers, dealing with the surge in demand for information as employers downsize and divest themselves of services which in turn gives rise to a new investment issue, that of disinvestment as the Fund moves into negative cash flow.

In the main, the Fund has coped extremely well with all the challenges it has faced to date but does now need to change in recognition of the new world ahead. In some areas the resources will need to be strengthened and in others changed whilst continuity issues and employer relations will need to be addressed. It is against this background that the Service Plan for 2012 – 2015 has been developed.

2. KEY OBJECTIVES 2012 -15 (See APPENDIX 2: Key Objectives & Targets for detail)

The Funds two core Strategies, Investment and Administration are both designed to maximise the efficiency and sustainability of the Fund and the success of these is critical. In particular diversification of investments has been a key strength in these turbulent times but has proved resource and governance intensive; the Pensions Administration Strategy has set a direction of travel which is perfectly aligned to the developing environment but more work needs to be done with the Fund's' key employers to fully realise the benefits for all parties.

The Principles established between government and unions in developing the new scheme include a review of the Administrative and Fund Management arrangements to improve efficiency. The implications for the Avon Fund are unclear but the diversity in size and value of funds across the country indicate some rationalisation will be considered post the introduction of the new scheme.

The **Key Objectives** for the Fund during the Service Plan period will be as follows:

1. To fully engage in all activity relating to the design, development and communication of a new Local Government Pension Scheme ("LGPS") proposals ensuring all stakeholders are fully informed of the developing situation
2. To plan for and implement all necessary changes to the administration to ensure a seamless transition to the new LGPS in 2014, including systems enhancements and training for both the fund and its employers
3. To work with employers to plan for and implement robust procedures for successful implementation of auto-enrolment (Employer legal responsibility)
4. To progress electronic member information updating by the introduction of the availability of on-line updating of member information to employers through *Employer Self Service* and to work with the unitaries to develop bulk interfaces
5. To undertake the Fund valuation including the review of the Funding Strategy Statement in light of scheme changes and Fund experience??)
6. Review the Investment Strategy in light of the new LGPS and actuarial valuation and make any necessary changes before 2014 to maintain compliance with the Fund's Statement of Investment Principles
7. To develop and implement policy in relation to Responsible Investing and Treasury Management by 2013
8. To review the Pensions Administration Strategy and in particular strengthen the working relationship and process efficiency with key employers
9. To make a number of changes in 2012 to the Pensions organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose
10. To embrace partnership opportunities as they arise at both a local and regional level.
11. To review the Governance and training arrangements for the Committee in view of the emerging changes

3. RESOURCE IMPLICATIONS

The full cost implications of implementing a new scheme cannot be quantified at present, but there are likely to be significant IT, Communication and training costs. This will be reported to the Committee in due course. In the meantime there are some immediate costs arising from the need to manage the impending retirements of a number of staff and strengthen resource within the Investments section to manage the increased volume of work.

The Investments section currently employs a part time (semi-retired) investments officer who deals with valuation matters and scheme employers' exiting the Fund, supported by the Employer Relationship Team. It is proposed to consolidate all actuarial issues under a new post (Valuation Accountant), allowing the investments officer to fully retire. The new post-holder will be the primary contact for actuarial issues, supporting the Investments Manager on valuation, financial and funding issues with employers.

It is also proposed to strengthen the investment team to cope with workload arising from the investment strategy and investment management arrangements with an additional post

(Investments Officer) and plan for the retirement of the Custody officer by employing an understudy. The net impact of these changes post officer retirement will be an increase of 2.5 posts by end 2013 with a short period of overstaffing in the interim.

Once the extent of the Scheme changes is understood, proposals will be brought forward to make changes to the benefits section. These will include recognising the impact of the growing number of employers and ensuring the information flows are timely and accurate, preparing for auto–enrolment and the impact on standards and quality of data as well as increases in reconciliation, enhancing systems capability and dealing with management transition.

4. BUDGET 2012-15

The three year budget plan also includes provision for the Triennial Valuation with work starting in 2012 and the recruitment of Independent Members and Advisors if required. The Investments budget reflects the anticipated 6% growth in asset values and will clearly be lower if this is not the case. Full details of the budget movements between 2011/12 and 2014/15 are given in **APPENDIX 3A.** A commentary on the budget is given in **APPENDIX 3B.**

The table below summarises the main changes in the budget resources over the next three years:

	2012/13	**2013/14**	**2014/15**
	£'000	**£'000**	**£'000**
Administration			
Previous Budget less one off items	2,078	2,149	2,161
Growth	135		
Savings	-66	-20	-8
One off items	-24	24	
inflation	26	8	43
Proposed Budget	**2,149**	**2,161**	**2,196**
Governance & Compliance			
Previous Budget less one off items	563	568	532
Growth	90		
Savings	-125	-112	
One off items	29	71	-70
inflation	11	5	10
Proposed Budget	**568**	**532**	**472**
Investments			
Previous Budget less one off items	8,690	10,173	10,780
Growth	1,485	607	644
Savings	-2		
One off items			
inflation			
Proposed Budget	**10,173**	**10,780**	**11,424**
Total Proposed Budget	**12,890**	**13,473**	**14,092**

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