



THE AVON PENSION FUND

SERVICE PLAN

2013 - 2016

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1. INTRODUCTION

The Local Government Pension Scheme continues to face 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 which are currently being incorporated into the Public Sector Pensions Bill 2013. The proposals to change the LGPS will affect contributions, benefits and accessibility to pensions. In addition, the funding environment for many of the employing bodies will remain challenging over the 3 years of this Service Plan.

Increasing longevity pressures together with a prolonged economic downturn means affordability remains at the top of the agenda and the new scheme which balances the relative affordability of employers and members is scheduled to come into effect in April 2014. The new scheme coupled with the implementation of auto-enrolment is putting severe pressure on the administration of both the Fund and Employer. Whether the new scheme has the desired effect on costs in the long term remains to be seen but it is not expected to reduce costs in the short term as the cost of pensions continues to rise due to the effect of historically low government bond yields on the discount rate used to value liabilities. Any potential savings arising from the changes to the benefits structure from 2014 will be taken account in the 2013 Valuation by the actuary. In 2012-13 the Fund reviewed its Investment Strategy in light of the current economic environment and outlook for investment markets.

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, there are now 59 academies in the Fund; the number of Fund members has increased by two-thirds in the last decade but now the trend is decreasing due to recent public sector cuts; the level of diversification required to manage risk within the investment portfolio 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. Against the difficult economic environment and public sector cuts, the Fund is dealing with the financial difficulties faced by some of its smaller Employers, as well as an increase in demand for information as employers downsize and alter the way they deliver services. In 2012-13 the level of contributions paid into the Fund fell at the same time that pension payments increased. This has caused the Fund to move into negative cashflow which will need to be managed through the revised investment strategy.

In the main the Fund has coped extremely well with all these challenges. During 2012/13 the Fund took significant steps to prepare for the changes to come. It revised its internal structure to ensure it can continue to deliver a high quality service to members and employers in recognition of the new changing world ahead. The establishment of a Data Control and Quality Management (DCQM) team from March 2013 will improve data quality and help streamline process. The team will also quality assess member data and clear errors to ensure that the Fund will meet the stringent minimum data quality requirements being brought in April 2015 policed by the Pensions Regulator whose remit has been significantly extended. The ground work for full electronic delivery of member data changes were laid in 2012 with the purchase of new middleware to enable bulk **automatic monthly** updating of changes to the Fund's pension database for larger employers and the roll out of Employer Self Service for other employers to facilitate their on-line update of changes.

Fire Fighters Scheme

The Pension Section also has responsibility for administering the two existing Fire Service pension schemes for Avon fire-fighters. This, like the LGPS will have a third new CARE based Scheme introduced but a year later from April 2015. Resource will be required as for the LGPS Scheme to communicate the changes to members and to deal with an additional

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layer of benefit calculations and new software. In view of the relatively small number of members it is expected that the existing resource will be able to handle this change. A more accurate assessment will be made in 2014 when the details of the new scheme is known and any additional resource will be included in the 2014-17 Service Plan.

The 2012-15 Service Plan identified the need to strengthen the resources in managing the investment and funding strategies and also in member data quality assurance within the benefits administration area. The extra resources are now in place leaving the Fund well positioned to deal with change moving forward.

The 2013-16 Service Plan builds on last years plan, identifying how the Fund will implement changes to its strategy and operations in order to continue to deliver services efficiently and that costs remain competitive.

2. KEY OBJECTIVES 2013 -16 (See APPENDIX 2: Key Objectives & Targets for detail)

The Fund's 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 recent 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 and work has begun with the Fund's' key employers to fully realise the benefits for all parties.

Within this plan, 2013-14 is particularly busy with the introduction of the new scheme, the 2013 valuation and implementing changes to the investment portfolio. The latter years will focus on consolidation, realising efficiencies and developing partnership working.

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, governance, transparency of data and collaborative initiatives. The implications for the Avon Fund are unclear but the diversity in size and value of funds across the country suggests that greater collaboration and possible rationalisation could materialise.

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 and new Fire-fighters Pension Scheme in 2015, 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 through the recently purchased *i-Connect* software
5. To progress the move towards electronic delivery of Scheme communications to active members
6. To improve the quality of member data held to meet the Pension Regulator's minimum legal requirements expected from April 2014. It will also review data changes as they are submitted by employers clearing errors to streamline the work of the Benefits teams in processing and paying members benefits
7. To undertake the Fund valuation including the review of the Funding Strategy Statement in light of scheme changes and Fund experience
8. To implement changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.

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9. To review the monitoring of the investment strategy and management arrangements in order to strengthen the decision making process and support the amended governance arrangements in respect of investment decisions
10. To review the Pensions Administration Strategy, recognising the new arrangements for electronic service delivery and in particular to deal with issues of poor performance. Introduce a new charging regime to reflect the increasing cost of employer fragmentation and the workload this generates.
11. To embrace partnership opportunities as they arise at both a local and regional level.
12. To review the training arrangements for the Committee in view of the emerging changes.

3. RESOURCE IMPLICATIONS

The 2012-15 Service Plan included proposals to strengthen the organisational structure to build resilience for the future, reduce risk and ensure fitness for purpose. As a result and number of staff changes were implemented in 2012/13 and the budget now reflects the revised organisational structure.

The Investments team has been strengthened by a full time post to work with employers on actuarial issues including outsourcings and an Investment Officer to assist in the monitoring of the investment arrangements, cash balances and asset allocation in addition to working on investment projects. These costs were provided for in the 2015-16.

The entire cost implications of implementing the new scheme arrangements cannot be fully quantified at present, but there are significant IT, Communication and training aspects to introducing the new scheme. In order to be adequately resourced for these changes and in particular the need to have accurate pension records, the Benefits Section has been restructured and strengthened from March 2013 by putting in 2.5 additional posts and by the establishment of a new Data Quality and Control Management team to help streamline process in advance of new stringent minimum data quality requirements by the Pensions Regulator. The additional costs of this change and the costs for implementing the new LGPS Scheme are included in the budget. In contrast the cost saving initiative is progressing to move to full electronic delivery to members.

Once the full extent of the Scheme changes and the roll out of auto-enrolment are understood, proposals may be brought forward to make further changes to the Benefits Section and its support services. This will depend on the effectiveness of the initiatives put in place to manage the extra work.

4. BUDGET 2013-16

The three year budget plan includes provision for the Triennial Valuation, implementation of the revised investment strategy and additional costs resulting from the restructuring of the Benefits Administration team that were approved in September 2012. As the revised investment management structure has not been agreed at the time of setting this budget, assumptions have been made including the appointment of new managers of more complex mandates than those funding the new mandates and, as a result, will incur higher costs. An allowance has been made for investment advice to select managers and projects arising from the review. The Investments budget also 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 2012/13 and 2015/16 are given in **APPENDIX 3A**. A commentary on the budget is given in **APPENDIX 3B**.

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